4QCY25 Outlook

Broader and Safer Runway

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FBM KLCI (pts)	
Current	**Target**
1,533	**1,640 ↑**

i) **Looking beyond large caps, with tech sector upgrade.** The Malaysian stock market, as with its ASEAN peers, has recovered most of the earlier lost ground. Relatively speaking, valuations don't appear to be at bargain level, with Malaysia's dividend appeal still standing out. As external risks take a notch down, there is scope for re-rating of smaller caps (exhibit 4) to be sustained from 3QCY25. We have turned bullish on the tech sector, more specifically in names linked to front-end business and also in the OSAT space.

ii) **Positioning for upside in external sectors, but with downside protection.** Given potential volatile upstream and commodities trend, our approach to externally exposed sectors is more balanced – for oil and gas, we have a barbell approach for portfolio, while for planters we prefer integrated players, and for gloves we stick to good management and balance sheet.

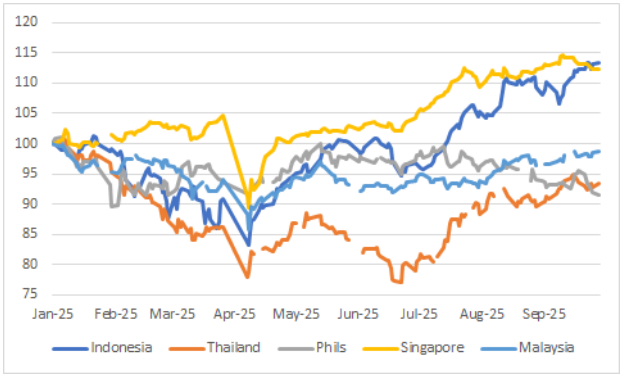
iii) **Budget season creates opportunity for tactical positioning.** Typically the budget season presents opportunity for tactical positioning, such as in the consumer names despite keeping the sector at neutral. More fundamentally, we have upgraded the property sector to Overweight, preferring developers with more high-value property mix. We remain fans of the construction sector, where we believe the water sector will become buoyant, in addition to a busy outlook for solar.

iv) **Stock picks.** We dropped TM (OP; TP: RM8.15) in our market picks and introduce UWC(OP; TP: RM3.82). Within the small cap space, we included SAMAIDEN (OP; TP: RM2.08) in place of KEYFIELD (MP; TP: RM1.57). Please see exhibits 10 to 12 for top pick list. Slight housekeeping tweak in year-end FBM KLCI target upwards to 1,640. See exhibit 10-12 for top picks, which include AMBANK, PCHEM, TIMECOM, SIMEPROP, etc.

Looking beyond large caps

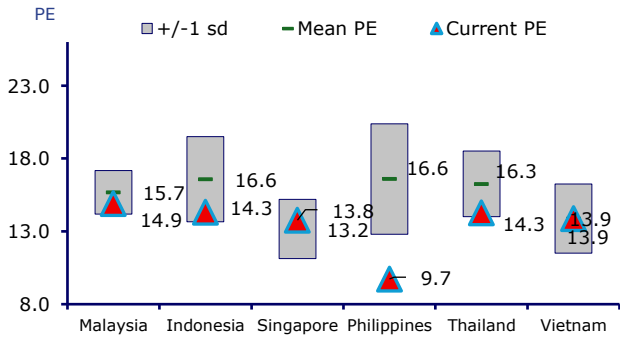
Enjoying more clarity, though not perceived to be at bargain valuation levels versus peers. Following more clarity on tariff imposed by the U.S., most of the stock markets in this region staged a recovery, with the FBM KLCI almost at parity (if we used a broader gauge of stocks i.e. the FBM100 index, YTD, Malaysia would still be down by 4.5%). More importantly, based on Bloomberg data from July to September, ASEAN countries cumulatively saw net foreign outflows, with Malaysia not an exception. Trading at 0.5 SD below 10-year average PER, Malaysia doesn't yet compare as a great bargain compared to peers (Exhibit 2).

Exhibit 1: Regional Stocks Movement (1 Jan rebased to 100)



Source: Bloomberg, Kenanga Research

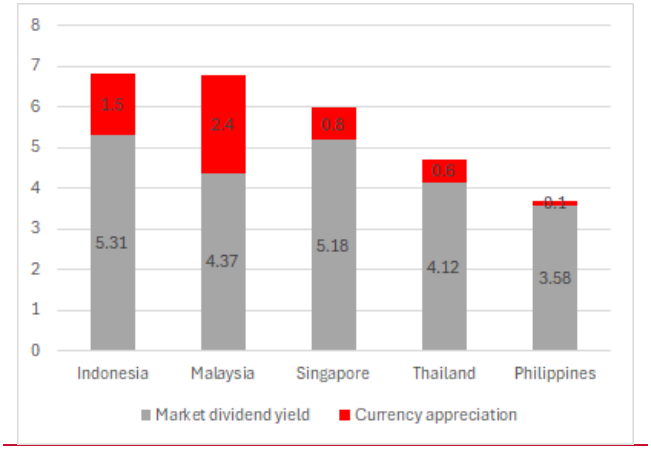
Exhibit 2: Regional Stock Valuation (10-year basis)



Source: Bloomberg, Kenanga Research

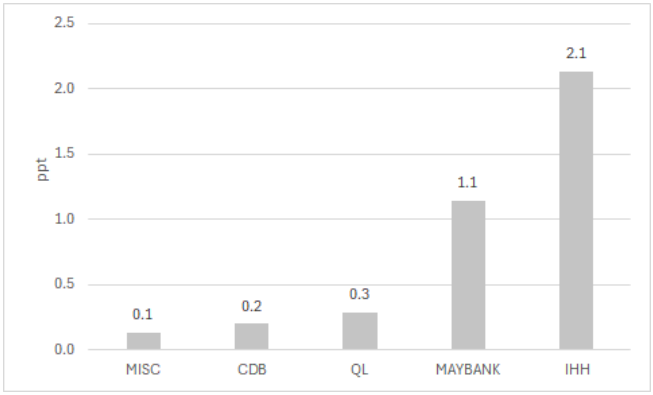
Dividends, amid local currency appreciation, remain a standout feature. Post the 2025 U.S. Federal Reserve rate cut, Malaysia's dividend yields feature well. If we use Bloomberg consensus estimates, the MYR should strengthen by 2% in 2026 compared to end-2025, ahead of its neighbours. Inputing these into market dividend yield of 4.4% helps Malaysia leapfrog that of Singapore (Exhibit 2), at a total currency adjusted yield of 6.8%. This is nevertheless still runner-up to Indonesia that is only marginally higher. We think this solidly places banks that are able to pay good dividends in a favourable position. The above argument also helps reinforce our conviction for **AMBANK** (OP; TP: RM6.90) as our banking sector top pick given its quest to optimize ROE further and ultimately pay higher dividends, followed in second place by **HLBANK** (OP; TP: RM24.50) which has also recently nudged up its dividend payout generously. Based on information up till August, we still seen declines in the foreign shareholding by banks compared to the June position, with the exception of MAYBANK among KLCI bank constituents. For the broader index, also only a handful saw increases in foreign shareholding over the same period (exhibit 4).

Exhibit 3: Dividend Yields (Inclusive of Expected Currency Movements in 2026)



Source: Bloomberg, Kenanga Research.

Exhibit 4: Changes In FBM KLCI Stocks' Foreign Shareholding Movement (June - August 2025)

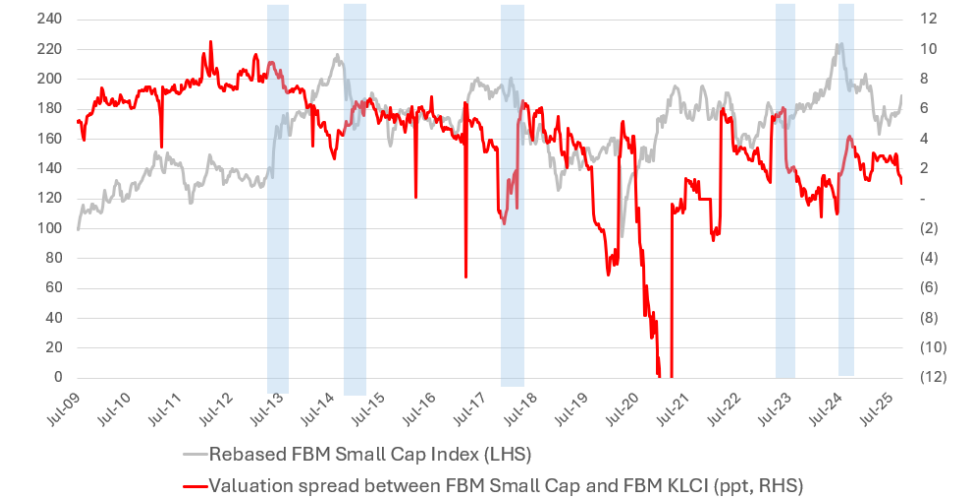


Source: Companies, Kenanga Research

Case for small caps still supported but a strong rally isn't our base case

Some continuation for the smaller cap stock improvement likely… We made a case in our 3QCY25 outlook report that positive risk-reward in the small cap phase was starting to take shape. Indeed FBM Small Cap returned 10% in 3QCY25, versus the 5% improvement for the broader FBM KLCI. Empirically, the smaller cap space would start to perform, we observe, when there is a sufficient valuation gap between the larger players and the smaller ones. Based on the Exhibit 5 below, usually we find a correlation whereby the performance of the small cap stocks index (grey line) will start to fall once the spread between large caps and small cap valuation is small (or the red line is at its trough), and vice versa. A bigger number in the spread signals that small caps trade at a relative bargain. For now, with the forward PER for both index trading relatively close (spread of less than 2 ppts), we don't see a compelling reason for a broad-based rally for small caps at this moment, although this could change, hinging on earnings upgrades in coming quarters.

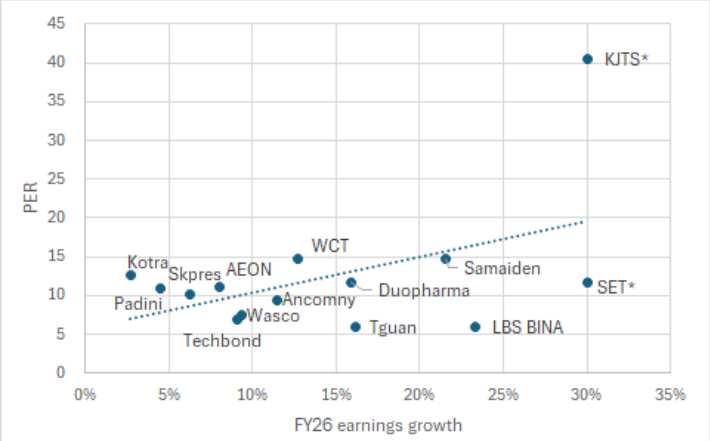
Exhibit 5: FBM Small Cap (Rebased) Versus the Spread Between Large Cap (FBM KLCI) and Small Cap (FBM SC) Forward PER – the blue shaded area highlights the inflection points



Source: Kenanga Research

…but we screen our small caps picks carefully. Within our portfolio coverage, to choose potential performers, we begin by selecting names that have: (i) an OUTPERFORM call; have at least 10% upside to share price, (ii) no more than RM2b in market capitalization, and (iii) positive earnings growth for FY26. Screening for such a criteria, we arrive at the following results. From the results, 5 out of 6 of our small-cap picks are present, with the exception of **HSPLANT** (OP; TP: RM2.40), given that this stock has a slight earnings decline in FY26. A couple of names that make the cut in Exhibit 5 below stemmed from the solar sector **(SAMAIDEN and SET)**, with equal number of names featuring the healthcare sector **(KOTRA and DUOPHARMA)**, and the consumer sector (**AEON and PADINI).**

Exhibit 6: Small Cap Screener



*Source: Kenanga Research *Earnings growth for KJTS and SET are respectively 71% and 54% but shown as 30% above for better graph spacing*

Tech upgrade– positive on front-end exposed names. We believe that the tech sector's tariff related exposures are proving to be contained, and the sector is a prime beneficiary from tariff related risks dissipating (please see technology note below for responses to tariff by Malaysian firms). Amid the global semiconductor sales momentum proving sustained, we prefer the visibility of wafer fab expenditure, which benefits front-end exposed players such as **KGB** (OP; TP: RM6.15)and **UWC** (OP; TP: RM3.82). **Inari** (OP; TP: RM8.15) rounds up our top-3 tech picks, given their leverage to capex-led growth and rising relevance in AI applications. We are also more comfortable with the exposure to automotive, given rosier prospects in key markets of China, Europe and the U.S, which would in turn improve the broader automotive semiconductor and LED ecosystem. **D&O** (OP; TP: RM1.61) would be well-placed to ride this recovery. However, one of the risks here would be a strong MYR, where the tech sector would conversely be exposed to a larger negative impact.

Expect policy support will be forthcoming. We also expect there could be resources that will be devoted to the area of chip design, such as previous government promotion of the zARM initiative. With >RM63b of investments already secured since launch, the government has identified 13 NSS-flagged champions across the value chain, including **Carsem, Inari, Pentamaster, ViTrox, KGB, Greatech** and several IC design firms (**Oppstar, SkyeChip, Infinecs, Experior**), which are well placed to benefit from favourable policies, subsidies, and capacity-building measures. These are names that could benefit from the policy tailwinds.

Position for upside potential in external sectors, but with downside protection in mind

China anti-involution drive may provide the upside risks. Gobal growth risks are still present, amid a China-US tariff pause that is set to be closely watch for the 90-days expiry by early November, potentially re-triggering hefty tariffs if stays status quo. Commodity prices could be volatile, not to mention inflation concerns in the US weighing on consumer. Thus our gameplan is to benefit from potential upside, but at the same time to limit downside risks. An upside to commodities-related names could, for example, come in the form of a successful China anti-involution drive which contains supply; in this vein China has reportedly signalled to reorganize its petrochemical capacities, and intervene in the overproduction of solar panels, among others.

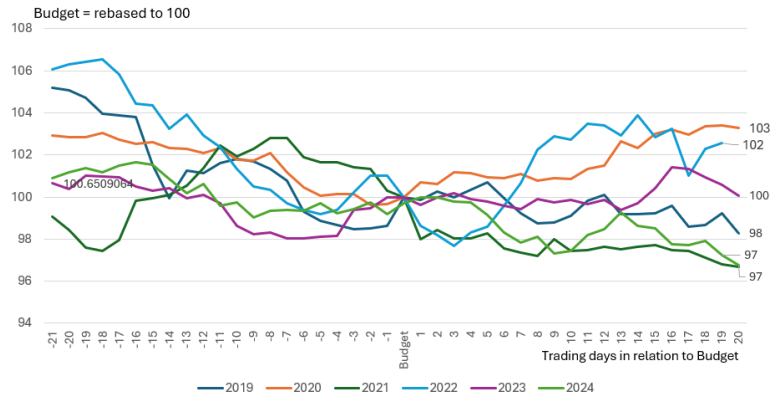
Barbell approach to oil and gas exposure. Kenanga's Brent Crude price estimates are at USD64/bbl for 2025 and USD67/bbl for 2026, ie a slight rebound. We prefer to take a balanced approach to portfolio construction. To be specific, within the volatile oil and gas sector, we employ a barbell approach, pairing **PCHEM** (OP; TP: RM5.30) on the more aggressive end of the spectrum, paired with more defensive mid-stream focus names such as **DIALOG** (OP; TP: RM2.24) at the less-risky end of the barbell. **DIALOG** typically benefits during period of crude production ramp-up cycles. Oil supply side dynamics could change if the ongoing Russia-Ukraine conflict persists.

Best balance sheet underpins KOSSAN and as the wait for gloves sector recovery continues, TPs are lowered. The glove sector is presently experiencing sluggishness due to front-loading effects in the US and intense competition from China, and in the immediate term we cannot discount earnings risk. For now we prefer names with balance sheet strength and good management, which remains **KOSSAN** (OP; TP: RM2.70), which have also been most reliable in our view in its ability to deliver on numbers. We believe that some patience is needed as for now we believe that an improvement in ROE will come for FY27, where profitability would climb to the c.4.5% - 5.5% range for ROEs or a near doubling from the profitability now, should nudge price-to-book multiples to 1.8x, 1.8x and 1.3x, respectively, for **KOSSAN, HARTA** (OP; TP: RM3.10)**, and TOPGLOV**. For this, we estimate using past 3-year average ROE/PBV ratio, which reflects a post COVID-19 era (as pre-COVID-19 would reflect a more dominant Malaysian glove landscape). Accordingly, we trim the TP for gloves players (see glove sector write-up), although still able to justify sizeable upside at time of writing.

Prefer integrated planters to upstream pure play. The prices for the palm oil crop have continued to be resilient, and Kenanga have had to upgrade estimates, although our central view is still for FY26 to come off to RM4,000/tonne from RM4,300 a year before. Given that many planters have strong balance sheet and net cash, upstream planters should perform better. However, the integrated players have been instead more resilient, cementing our preferred way to gain exposure to the sector via integrated players Thus, we like **KLK** (OP; TP: RM23.00). We also like **PPB** (OP; TP: RM12.50), and for smaller planters we are partial to **HSPLANT**(OP; TP: RM2.40) which offers dividend yield of around 6.5%.

Navigating the goodies season

Exhibit 7: FBM KLCI Movement a Month Before And After Tabling of Federal Budget



Source: Kenanga Research, Bloomberg

Budget season has room for tactical positioning, and could take advantage of higher foreign participation. Historical track record tell us that market average daily traded value doesn't always trade higher in 4QCY24 despite coinciding with Budget season. On average, looking at the past six Federal Budgets, only twice did FBM KLCI ended up higher a calendar month from Budget date. We observe that unlike earlier years, in the more recent four years (2021-2024), foreign participation have tended to rise during Budget season, by 1.3 ppts to 4.3 ppts compared to the monthly average in the year for foreign participation. This allows us some anecdotal evidence to say that there could be to an investors' advantage to keep our eye out on larger-cap, foreign favourites moving into the typical Budget season for tactical reasons.

Consumer stocks have improved but we believe more driven by sentiment. The improvement in the consumption space has been mainly on uncertainty removed on certain policy, especially on fuel subsidy mechanism, which "frontloads" some of the optimism usually reserved during Budget period on goodies and handouts. By our calculations, the consumer space receive modest relief from fuel subsidy mechanism. Fundamentally, even on a stretched assumption that 16m motorists benefit and channel the full RM18 monthly savings into consumption, the total boost to spending would be roughly RM290m, which would be equivalent to 0.3% of total annual private consumption annually. Nevertheless, these savings would still benefit **MRDIY** (OP; TP: RM2.04), our consumer sector pick, and freshly added second consumer pick, **AEON** (OP; TP: RM1.55). We won't be surprised for some positive tailwinds – Chief Secretary to the Government has hinted at "good news" for civil servants and Malaysians, with the Congress of Unions of Employees in the Public and Civil Services looking for a one-month bonus. The upcoming budget is also expected to prioritise tourism-related initiatives ahead of Visit Malaysia 2026, potentially benefitting F&B players such as **F&N** (OP; TP: RM30.70) and **NESTLE** (MP; TP: RM85.1).

Fundamentally, upgrade of property sector, with preference for the premium segment. We have recalibrated our sector discount-to-RNAV assumptions (see property sector note), pegging more favourable valuations to developers with higher-valued project composition which we opine carry stronger visibility on land activation and sales. This lies in a belief that multiple measures seen supportive of consumption may reflect a lower capacity for large-ticket discretionary purchases such as homes, particular in the lower-income households. We upgraded the sector to **Overweight**,with our sector top picks being **SIMEPROP** (OP; TP: RM1.95) and **SPSETIA** (OP; TP: RM1.43).

Infrastructure plays and potentially with water coming into focus. We have yet to factor in MRT3 roll-out, but we expect some details on the Johor ART. It has been reported that the Johor state prefers an elevated ART system over a light rail transit, to complement the Johor Bahru-Singapore RTS Link, given lower cost and quicker implementation. Three consortiums are believed to have submited proposals, namely **MMC-DOM**, **WCT-Lion Pacific,** and **YTL-SIPP**. Over at East Malaysia, we also look forward to more allocation as well for the Pan Borneo Highway Sarawak and Pan Borneo Highway Sabah.

Equally, we expect that the government would focus on water project roll-outs amid new data centre water tariff (rising by at least 50%) which could further boost cash flows and trigger a fresh wave of infrastructure spending. **ENGTEX** (OP; TP: RM0.62)**,** which historically garners about 50% market share for water pipes, is our sector top pick for building materials. On a related note, we also expect the CRESS programme, now with more competitive system access charges, could compel industry take-up, including from data centres, which would continue to shine the spotlight on Renewable Energy players, where we like **SLVEST**.

Autos in the driver's seat. In autos, we have recently highlighted the policy on RON95 subsidy made eligible to all licensed Malaysian drivers to be beneficial to the sector, albeit at the expense of being able to achieve faster roll-out and attainment of the nation's EV targets. Thus, we expect continued incentives for BEVs in some form, possibly during the Budget season, or expansion to include incentives for companies producing critical components, as well as inclusion of hybrids and plug-in EV as part of transition.The above should benefit **MBMR** (OP; TP: RM7.00) and **SIME** (MP; TM: RM1.90). A positive for the sector would be Open Market Value, a method for calculating of excise tax on vehicles, scheduled to be implemented from January 2026 to be postponed, as this measure significantly increased the prices of locally assembled vehicles by 10%-30%.

Stock Picks

Changes in market picks. Within the larger caps, we have included **UWC** in place of **TM,** with **TIMECOM** being the sole telco name in our large cap picks, compared to our 2QCY25 wrap note. On the back of **KEYFIELD**'s share price rally, we believe that its risk-reward profile has turned less compelling. In its place, we include **WASCO** (OP; TP: RM1.17)**.** We also introduce conviction call **SAMAIDEN** in place of **SET (OP; TP: RM0.62)**.

Pecking order changes within neutral sectors. The likelihood for outperformance of REITs from macro standpoint could be lower after a strong performance, the advent of SST (which may reduce the ease rental reversion), and also our view that MGS yield will end 2025 at 4.34%, i.e. around current levels. We have one pick in the REIT space namely **CLMT (OP; TP: RM0.65)**. Meanwhile, on better performance in face of competition, we have nudged **TIMECOM** ahead of **TM** in our pecking order within the telco space. Finally, within the plastics and packaging sector, we have also swapped out **SLP** for **TGUAN** (OP; TP: RM1.44).

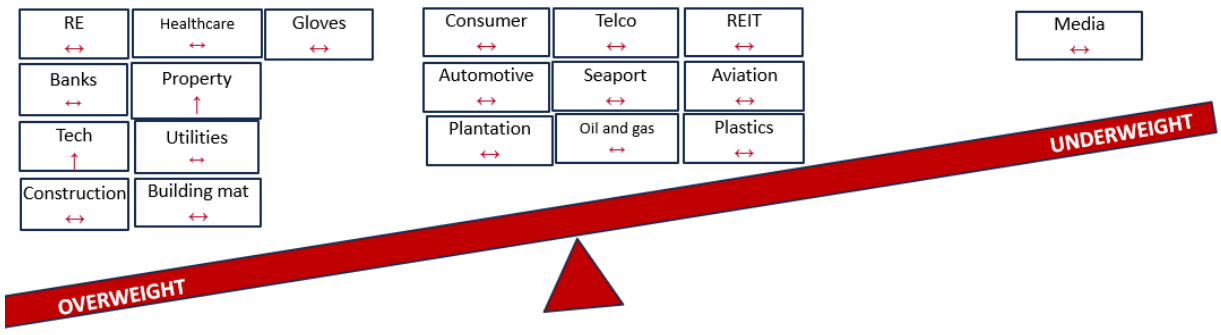
Year-end target. Recalibrating primarily for **SUNWAY** (UP; TP: RM4.56) given its corporate exercise to acquire established property developer, Hongkong Land Holdings Limited, our market earnings growth now comes in at 2.5% (from 2.1%). This results in a slightly uplifted year-end target of 1,640 versus 1,625 earlier. This is about 2% upside at time of writing, which broadly checks out with the 10-year average return for the fourth quarter of the year. Based on unchanged 15.5x earnings multiple, our 5.9% earnings growth in FY26 would translate to an end-FY26 FBMKLCI level of 1,725, all else equal.

Exhibit 8: Sector Top picks

Overweight	Neutral		Underweight
Renewable Energy & Energy Efficiency KJTS	**Technology** KGB UWC	**Telco** TIMECOM (from TM)	**Media** -
Utilities TENAGA		**Automotive** MBMR	
Healthcare IHH		**Consumer** MR.DIY	
Gloves KOSSAN		**REIT** CLMT	
Banks AMBANK		**PORT/Logistics** WESTPORTS	
Construction GAMUDA		**Oil and gas** PCHEM	
Building materials ENGTEX		**Plantation** KLK (from PPB)	
Property SIMEPROP		**Plastics** TGUAN (from SLP)	

Source: Bloomberg, Kenanga Research

Exhibit 9: Sector conviction from most conviction to the least



Source: Kenanga Research

Exhibit 10: Top Conventional Picks and Key Investment Statistics

Stock	Stock Call	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RMmil)	FYE	EPS (sen)		EPS Growth (%)		PER (x)		PBV (x)	DIV (%)	NDPS (sen)
							FY25F	FY26F	FY25F	FY26F	FY25 F	FY26 F	FY25	FY25F	FY25F
HLBANK	OP	20.32	24.50	20.6%	44,048.0	06/2026	232.1	238.4	1.6%	2.7%	8.8	8.5	1.0	5.2%	105.0
TENAGA	OP	13.34	17.10	28.2%	77,760.8	12/2025	82.9	88.8	-2.0%	7.1%	16.1	15.0	1.2	3.1%	41.0
IHH	OP	7.50	8.11	8.1%	66,271.2	12/2025	21.6	24.3	12.6%	12.2%	34.7	30.9	2.1	1.3%	10.0
TIMECOM	OP	5.13	5.91	15.2%	9,484.4	12/2025	26.1	28.7	10.6%	9.9%	19.6	17.8	2.5	5.9%	30.5
YTLPOWR	OP	4.17	4.66	11.8%	35,789.2	06/2026	32.8	31.8	-7.1%	-3.2%	12.7	13.1	1.4	1.9%	8.0
AMBANK	OP	5.60	6.90	23.2%	18,524.2	03/2026	64.4	66.2	6.5%	2.8%	8.7	8.5	0.9	5.6%	31.5
UWC	OP	3.63	3.82	5.2%	4,003.5	07/2026	10.0	13.9	172.6%	38.8%	36.2	26.1	6.8	0.0%	0.0
PCHEM	OP	4.55	5.30	16.5%	36,400.0	12/2025	4.0	21.1	-73.1%	434%	115.1	21.5	0.9	1.1%	5.0
GAMUDA	OP	5.61	6.13	8.7%	32,826.7	07/2026	23.8	33.7	37.3%	41.6%	23.6	16.7	2.5	1.8%	10.0
KGB	OP	5.61	5.15	-8.2%	4,338.9	12/2025	21.1	20.5	29.6%	17.1%	26.6	27.4	6.2	2.0%	11.0

Source: Kenanga Research

Exhibit 11: Top Shariah Picks and Key Investment Statistics

Stock	Stock Call	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RMmil)	FYE	EPS (sen)		EPS Growth (%)		PER (x)		PBV (x)	DIV (%)	NDPS (sen)
							FY25F	FY26F	FY25F	FY26F	FY25F	FY26F	FY25	FY25F	FY25F
TENAGA	OP	13.34	17.10	28.2%	77,760.8	12/2025	82.9	88.8	-2.0%	7.1%	16.1	15.0	1.2	3.1%	41.0
IHH	OP	7.50	8.11	8.1%	66,271.2	12/2025	21.6	24.3	12.6%	12.2%	34.7	30.9	2.1	1.3%	10.0
IJM	OP	2.83	3.40	20.1%	9,919.6	03/2026	15.6	16.2	20.9%	4.0%	18.1	17.4	1.0	2.8%	8.0
PCHEM	OP	4.55	5.30	16.5%	36,400.0	12/2025	4.0	21.1	-73.1%	434.2 %	115.1	21.5	0.9	1.1%	5.0
GAMUDA	OP	5.61	6.13	8.7%	32,826.7	07/2026	23.8	33.7	37.3%	41.6%	23.6	16.7	2.5	1.8%	10.0
SIMEPROP	OP	1.50	1.79	19.3%	10,201.3	12/2025	7.6	8.2	3.2%	7.3%	19.7	18.3	0.9	2.0%	3.0
KGB	OP	5.61	5.15	-8.2%	4,338.9	12/2025	21.1	20.5	29.6%	17.1%	26.6	27.4	6.2	2.0%	11.0
MR.DIY	OP	1.62	2.04	25.9%	15,347.9	12/2025	7.0	7.8	14.5%	12.4%	23.3	20.7	7.4	3.6%	5.8
TIMECOM	OP	5.13	5.91	15.2%	9,484.4	12/2025	26.1	28.7	10.6%	9.9%	19.6	17.8	2.5	5.9%	30.5
UWC	OP	3.63	3.82	5.2%	4,003.5	07/2026	10.0	13.9	172.6%	38.8%	36.2	26.1	6.8	0.0%	0.0

Exhibit 12: Top Small-Cap Picks and Key Investment Statistics

Stock	Stock Call	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RMmil)	FYE	EPS (sen)		EPS Growth (%)		PER (x)		PBV (x)	DIV (%)	NDPS (sen)
							FY25F	FY26F	FY25F	FY26F	FY25F	FY26F	FY25	FY25F	FY24F
HSPLANT	OP	2.00	2.40	20.0%	1,599.4	12/2025	17.8	16.4	-4.4%	-7.6%	11.3	12.2	0.7	6.5%	13.0
KJTS	OP	1.63	2.12	30.1%	1,122.8	12/2025	2.3	4.0	20.8%	71.1%	69.4	40.6	11.9	0.3%	0.5
WASCO BHD	OP	0.995	1.17	17.6%	770.4	12/2025	1.5	1.7	-41.5%	9.4%	65.2	59.6	6.3	5.0%	5.0
SLVEST	OP	2.63	3.25	23.6%	2,184.0	03/2026	10.1	13.7	48.7%	36.1%	26.1	19.2	5.2	0.0%	0.0
SET	OP	0.235	0.470	100.0%	235.2	09/2025	1.3	2.0	-29.3%	53.8%	18.1	11.8	3.0	0.0%	0.0
SAMAIDEN	OP	1.37	2.08	51.8%	636.0	06/2026	6.7	8.2	24.3%	21.3%	18.3	15.1	2.9	0.9	0.9

FY24F and FY25F refers to FY25F and FY26F
Source: Kenanga Research

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Automotive

Nationals Brand Set a Clear Path

NEUTRAL

↔

By Wan Mustaqim Bin Wan Ab Aziz I wanmustaqim@kenanga.com.my

We remain NEUTRAL on the sector. We estimate that national marques will expand their market dominance to 64% of CY25 TIV (vs. 58% in CY22), due to increasing demand for affordable vehicles, displacing the non-nationals marques' market share. Although we make no changes to our TIV forecast, we believe the heavyweights under our coverage are experiencing valuation de-rating due to intense competition in the non-nationals space. If such pressures persist, such as with more foreign brands localization programme, the challenging outlook for non-national brands could persist into CY26. Our CY25 TIV forecast of 805k units (-2% YoY) is a tad above the forecast of 780k (-4.4% YoY) by the Malaysian Automotive Association (MAA), backed by strong sustained demand in the affordable segment, benefit of fuel subsidies being expanded to all Malaysian (compared to prior expectation of income-based targeting), attractive new launches, and forward buying interest on the deferment of new excise duty regulations to end-2025 in which we expect Perodua to benefit the most. MBMR (OP; TP: RM7.00) and HLIND (OP; TP: RM17.70) are our sector picks, being good proxies to the strong sales of affordable vehicle market besides offering attractive dividend yield of about 9% and 6%, respectively.

National marques in the lead. Based on our TIV forecast of an unchanged 805k units for CY25, we estimate that national marques will expand their market dominance to 64% of CY25 TIV compared to 58% of TIV in CY23, due to increasing demand for affordable vehicles, displacing the non-nationals marques' market share on which their target focus is mostly in the RM100k-and-above vehicles segment (refer to exhibit 3). This was evident in our stock coverage over the 1HCY25 results season, and we believe the heavyweights under our coverage are experiencing valuation de-rating due to intense competition in the non-nationals space i.e. **SIME (MP; TP: RM1.90)** and **DRBHCOM (UP; TP: RM0.70),** which we already factored into our valuations after few rounds of weak quarterly results. If the intense competition further ramps up with mass localisation of foreign brands and the market become even more fragmented, the challenging outlook for non-national brands could persist into CY26. BYD has recently unveiled its plan for EV production in Tanjong Malim, Perak, set to begin production in late 2026 and Chery is already developing a large-scale Chery Smart Auto Industrial Park in Selangor, while TQ-Wuling Bingo is looking to do semi knocked-down (SKD).

Our CY25 TIV forecast is 805k units (-2% YoY), driven by strong sustained demand in the affordable segment, fuel subsidies being expanded to all Malaysian (compared to prior expectation of income-based targeting) which partly remove the uncertainty in the mid-market segment (despite still facing intense pricing competition from Chinese brands which are flooding the market with attractive and value-for-money new models), forward buying interest on the deferment of new excise duty regulations to end-2025 (that could have resulted in prices of locally assembled vehicles increasing by 10%−30%), in which we expect Perodua to benefit the most at 44% TIV market share with the highest localisation rate, attractive new launches (i.e. Perodua hybrid, Perodua EV and all-new Perodua Myvi), higher household income (i.e. higher government servants' salary starting December 2024 and higher minimum wages starting February 2025) and a stable labour market (our economic research team forecast unemployment rate of 3% in CY25 vs. 3.3% in CY24).

In general, the industry's earnings visibility is still good, backed by a booking backlog of 150K units as at end-August 2025. More than half of the backlog is made up of new models, alluding to the appeal of new models to car buyers. This trend is likely to persist till end-CY25 and flow into CY26, given the strong line-up of new launches.

Gradual transition to battery electric vehicles (BEVs). We expect gradual transition to BEVs which currently enjoys SST exemption and other EV facilities incentives up until 2025 for imported CBUs and 2027 for locally-assembled CKDs. Looking further, we also have a nuanced view of EV adoption eventually picking up and gasoline demand will eventually peak, but we do not think that will happen in the next five years due to infrastructure challenges. This new petrol subsidy mechanism, in our view, could make the transition even slower than earlier expected as the middle- and lower-income group now have less incentive to switch from ICE to EV for the time being. Recall that, the new registration for BEVs leapt from 274 units in CY21 to over 3,400 units in CY22, 13,301 units in CY23, and 21,789 units in CY24 (based on the Ministry of Transport's press release), or 3% of TIV. Malaysia aims for electric vehicles (EVs) to represent 20% of new vehicle sales by 2030, with longer-term vision extends to 80% by 2050 (including hybrids vehicles). Government currently focused on building out the EV ecosystem, including establishing 10,000 public charging points by 2025 (no updated target yet, despite the current build-to-date lagging behind with less than 50% of the target) with current number of proposed charging stations currently at 4,477 (4,161 built-to-date) and providing tax incentives to stimulate adoption and local production.

National brands widened product offerings. Apart from affordability, Perodua and Proton models have outsold non-national brands as they have also caught up in terms of specifications and features such as digital speedometer, fuel-efficient engine, highly-responsive gearbox, advanced driver assistance system, the number of airbags (4 to 6) and anti-theft auto-locking system.

Perodua is introducing three new models priced <RM100K in 2025 and 2026, namely: (i) the Perodua D66b (could be trademarked as Perodua Nexis) built on the latest Daihatsu new global architecture platform, (ii) the first Perodua EV model (could be trademarked as Perodua QV-E), and (iii) all-new Perodua Myvi in 2026.

These should give the B-segment offerings of its competitors a run for their money, including the Proton e.MAS EV (CBU, RM109K−123K) and Toyota Yaris Cross (due for launching by end-2025).

On the other hand, Proton is riding on parent Zhejiang Geely Group's technology and eco-system for the transition to EV. Proton will transition to EV in three phases, i.e. (i) Phase 1 in 2023−2027 (EV Pioneering), (ii) Phase 2 in 2025−2030 (EV growth), and (iii) Phase 3 in 2027−2030 (EV right-hand development hub).

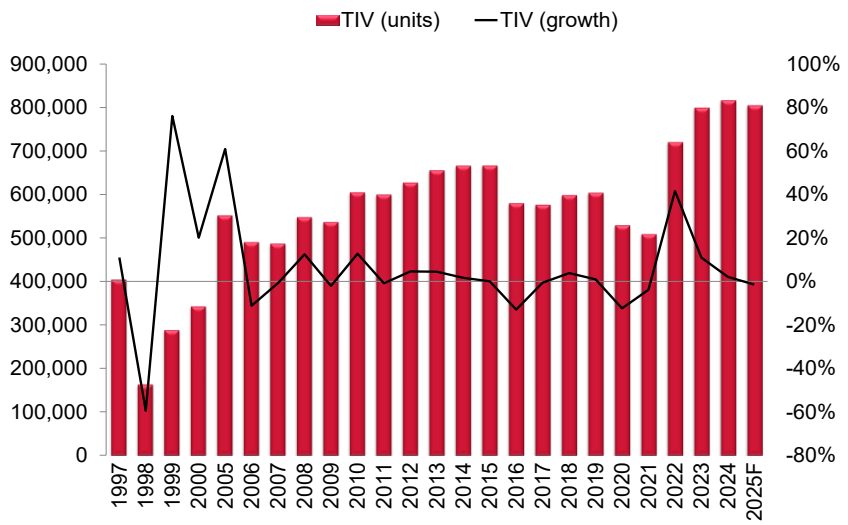
In the space of non-national brands, we saw the entry of Chinese and US automakers i.e. BYD, Tesla, Chery, Jaecoo, GAC, GWM and ORA, focusing mostly on the premium segment with a strong line-up of new EV & hybrid models (see Exhibit 3), which could be in direct competition with **BAUTO (MP; TP: RM0.60)**. Notwithstanding, with the recent announcement on cheaper RON95 petrol price with subsidies for all Malaysianlicensed drivers, we expect positive sentiment as well for **BAUTO** which has been on a more gradual transition towards EVs (its Mazda brand still form the largest unit sales of its vehicles, despite having Xpeng EV brand under its line-ups).

Our sector top picks are:-

MBMR for: (i) its strong earnings visibility backed by an order backlog of Perodua vehicles of over 94k units (CY25 target sales of 345k units), (ii) being a good proxy to the mass-market Perodua brand given that it is the largest dealer of Perodua vehicles in Malaysia, as well as its 23% stake in Perusahaan Otomobil Kedua Sdn Bhd, the producer of Perodua vehicles, and (iii) its attractive dividend yield of about 9%. We also expect MBMR to benefit from the slew of new launches planned for Perodua (new models fetch higher margins), expansion of its dealership offerings through the Jaecoo brand and the down-trading trend by buyers boosting demand for its affordable Perodua brand and the value-for-money Jaecoo brand.

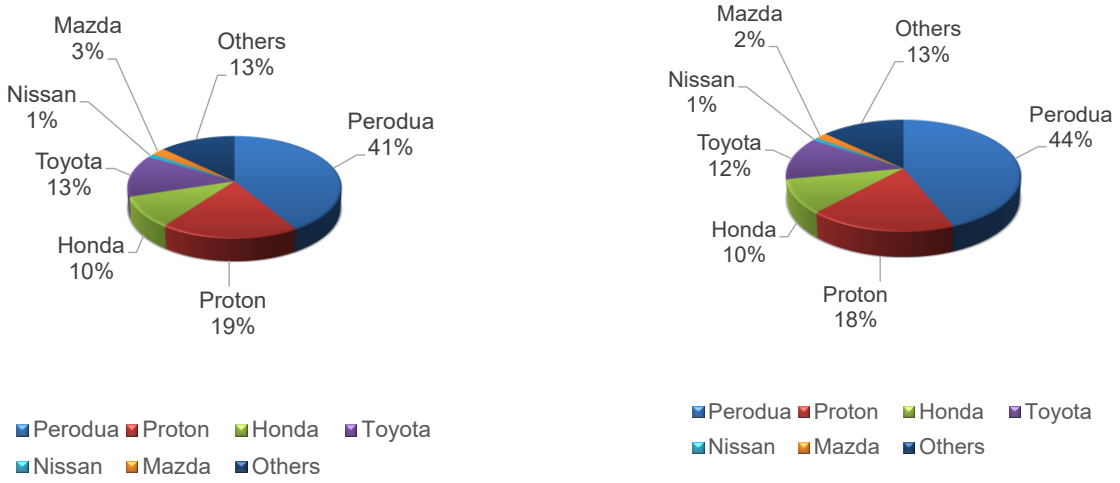
HLIND: (i) as it is a strong proxy to the booming gig economy given the critical role of motorised two-wheelers in executing online delivery transactions, (ii) for its association with the strong Yamaha motorcycle brand in Malaysia and the brand's market leader position in the local motorcycle segment, and (iii) for its solid war chest with a net cash of RM2.0b that could be deployed for earnings-accretive acquisitions. Its dividend yield is also attractive at 6%. We anticipate robust demand for the motorcycles market (to achieve a record year of 700K units (+11%) in 2025, with Yamaha holding the lion's share of 50%).

Exhibit 1: TIV Volume 1997−2025F



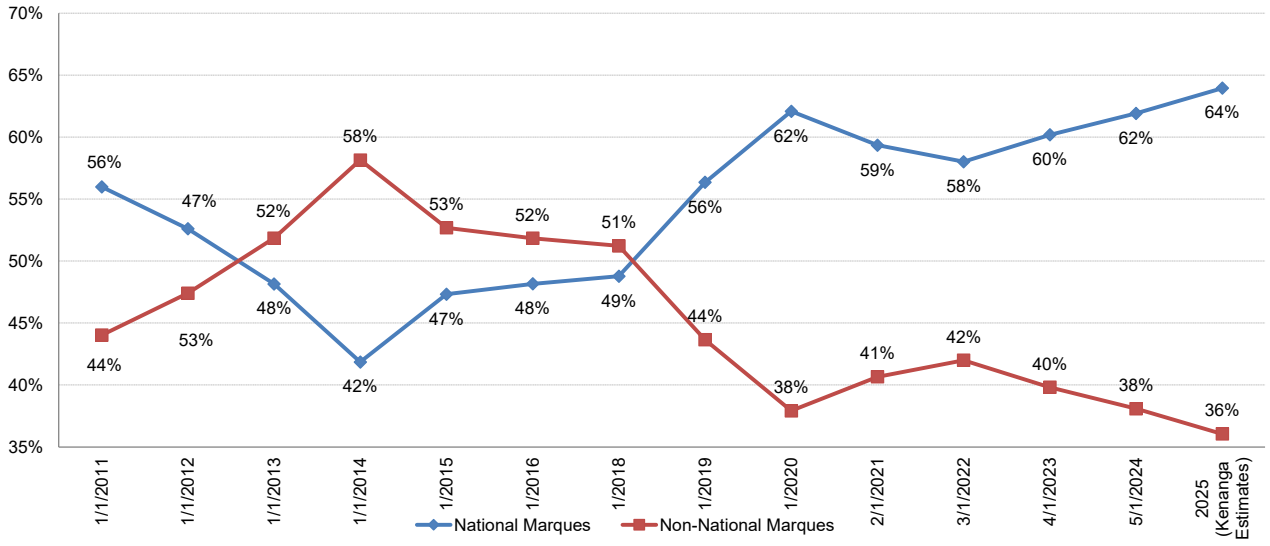
Source: MAA, Kenanga Research

Exhibit 2: Market Share by Brands CY23A vs. CY25F



Source: MAA, Kenanga Research

Exhibit 3: Nationals vs. Non-Nationals Market Share



Source: Kenanga Research, MAA

Exhibit 4: Various New EV Models

Perodua QV-E

HONDA e:N 1

Xpeng X9

Tesla Cybertruck (SUV)

All-new SMART #3 (2024)

BYD BAO 5

BYD Dolphin

Jaecoo J6 / Icaur 03

TQ-Wuling Bingo

GAC Aion Hyper HT

Proton eMas 7

Proton eMas 5

Source: Paultan.org, Kenanga Research

Peer Table Comparison

Name	Rating	Last Price (RM) as at 19.09.25	Target Price (RM)	Upside	Market Cap (RM m)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE	Net. Div. (sen)	Net Div Yld
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
BERMAZ AUTO BHD	MP	0.650	0.600	-7.7%	782.7	Y	04/2026	6.2	9.4	-53.6%	51.1%	10.4	6.9	1.0	9.8%	5.0	7.7%
DRB-HICOM BHD	UP	1.01	0.700	-30.7%	1,913.9	Y	12/2025	6.2	8.1	101.5%	31.1%	16.3	12.4	0.2	1.2%	3.0	3.0%
HIL INDUSTRIES BHD	MP	0.750	0.800	6.7%	249.0	Y	12/2025	9.6	9.6	-24.6%	0.3%	7.8	7.8	0.5	6.5%	2.0	2.7%
HONG LEONG INDUSTRIES BHD	OP	13.86	17.70	27.7%	4,472.6	Y	06/2026	147.1	150.2	-4.0%	2.1%	9.4	9.2	1.7	18.4%	80.0	5.8%
MBM RESOURCES BHD	OP	5.19	7.00	34.9%	2,040.4	Y	12/2025	86.5	87.6	1.5%	1.3%	6.0	5.9	0.8	12.9%	51.0	9.8%
SIME DARBY BHD	MP	2.19	1.90	-13.2%	14,789.8	Y	06/2026	18.6	20.0	8.3%	7.8%	11.8	10.9	0.8	6.5%	14.0	6.4%
TAN CHONG MOTOR HOLDINGS BHD	UP	0.575	0.300	-47.8%	381.2	Y	12/2025	(27.6)	(24.4)	-179.8%	-188.6%	N.A.	N.A.	0.2	-7.7%	1.0	1.7%
SECTOR AGGREGATE					**24,629.6**					**4.7%**	**9.8%**	**11.6**	**10.6**	**0.6**	**5.5%**		**5.3%**

Source: Kenanga Research

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Banking

Riding Through a Rough NII Patch

OVERWEIGHT
↔

By Clement Chua I clement.chua@kenanga.com.my

We maintain our OVERWEIGHT call on the banking sector. The sector is expected to remain resilient in spite of near-term headwinds, from tone-downed guidances in: (i) loans growth mainly due to softer regional markets, and (ii) NIMs following the 25 bps OPR cut. The shortfall in NII could be made up by better fair value gains in fixed income from declining MGS yield alongside sequentially stronger trading ADVs which should uplift fees and wealth management. We do not anticipate further changes to OPR for the remainder of CY25.

For 4QCY25, our top pick for the sector continues to be AMBANK (OP; TP: RM6.90) for its optimisation efforts, and emphasis on earnings sustainability to lift ROE, with higher dividend yield prospects being a bonus (c.6%). Meanwhile, with its dividend payout and yield prospects (c.5%) now improved, we believe HLBANK (OP; TP: RM24.50) now shines as a more viable long-term investment, anchored by its leading asset quality. Also, MAYBANK (OP; TP: RM11.30) remains an attractive call for us at current price points, supported by its leading market share as well as better-than-industry GIL and dividend yield (c.6%).

Between NBFIs, we still like general insurer LPI (OP; TP: RM16.00) which is slated for special dividend yield of up to 12% on top of its core 6%-7% yields. We do not believe the extension of its disposal will derail this investment thesis as it was initially proposed that the payout would take place over 18 months, which indicates a medium-term position anyway.

Softer NII expectations not the end all… against a backdrop of slower GDP expectations (Kenanga CY25 in-house estimates: 4.3%, CY24: 5.1%), most banks are now guiding for loans growth in CY25 to similarly come off. The few banks which anticipate stronger YoY growth attribute it to back-loaded large corporate loans to be disbursed.

We highlight that although **AFFIN's** targets lean towards a stronger FY25, it is likely to tone down guidances during its 3QFY25 results review after a soft showing in 2QFY25. **CIMB's** stronger expectations (on a constant currency basis) are fuelled by better clarity on US tariffs taking effect in 2HCY25, while the other banks are conservative expecting the sector to protract until year-end.

Following the 25 bps cut to OPR, the banks are also anticipating a further decline to NIMs on a full-year basis. For most banks, this would be the third consecutive year of declining NIMs (following Feb 2023's hike from 2.75% to 3.00%). More immediately, we anticipate 4QCY25 to experience seasonally higher deposits competition. Although the industry LDR of c.89% appears elevated, the lower OPR should allow banks to sustain deposit rates for longer, deferring an immediate correction.

We believe NIM pressures may only begin to stabilise by CY26 when the banks have fully optimised their funding mix and completed the re-pricing of fixed deposits.

Fig 1: Bank Guidances Post-2QCY25 Results

Company	FYE	Loan Growth	NIM	Return On Equity
ABMB	Mar-26	8%-10% *(FY25: 12.0%)*	2.37%-2.43% *(FY25: 2.45%)*	>10.0% *(FY25: 10.3%)*
AFFIN *revisions expected in 3QFY25*	Dec-25	12.0% *(FY24: 8.1%)*	1.55% *(FY24: 1.45%)*	6.0% *(FY24: 4.5%)*
AMBANK	Mar-26	Single digit growth *(FY25: 3.5%)*	Stable *(FY25: 1.97%)*	
BIMB	Dec-25	6%-7% *(FY24: 3.8%)*	>1.90% *(FY24: 2.13%)*	>7.5% *(FY24: 7.6%)*
CIMB	Dec-25	5%-7%* *(FY24: 2.6%)*	Stable to -5 bps *(FY24: 2.21%)*	11.0-11.5% *(FY24: 11.2%)*
HLBANK	Jun-26	6%-7% *(FY25: 7.8%)*	1.80-1.90% *(FY25: 1.90%)*	11.5%-12.0% *(FY25: 12.2%)*
MAYBANK	Dec-25	+3% *(FY24: 5.3%)*	Slight compression *(FY24: 2.12%)*	>11.3% *(FY24: 10.7%)*
MBSB	Dec-25	5%-6% *(FY24: 4.2%)*	2.0% *(FY24: 2.40%)*	5%-6% *(FY24: 4.1%)*
PBBANK	Dec-25	5%-6% *(FY24: 6.3%)*	Mid-high digit compression *(FY24: 2.20%)*	~13.0% *(FY24: 12.8%)*
RHBBANK	Dec-25	5%-6% *(FY24: 6.9%)*	1.80%-1.83% *(FY24: 1.86%)*	10.4%-10.8% *(FY24: 10.0%)*

Green denotes better performance than prior year, red denotes lower than prior year

** Constant currency basis*

Source: Companies, Kenanga Research

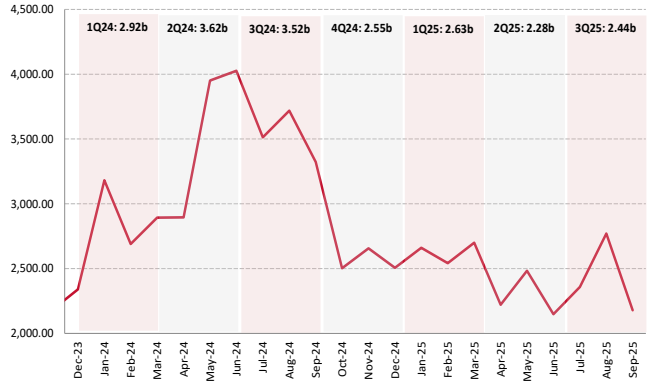
…with anticipated strength in investments a saving grace. On the flipside, the cut in OPR has led MGS yields lower, with 3QCY25 averaging at 3.4% (-22 bps QoQ, -37 bps YoY). This should translate into higher fixed income fair value gains, benefiting banks with meaningful debt security holdings, particularly **CIMB** with it making up c.29% of its total assets (vs. peer average of c.22%)

Meanwhile, domestic equities market activity has picked up, with ADVs at c.RM2.45b in 3QCY25 (+7% QoQ), though trailing far from 3QCY24's ADV of RM3.52b. While improved sequentially, trading sentiment has yet to fully return to prior-year highs, suggesting room for further recovery should macro conditions stabilise.

Fig 2: MGS 10-Year Bond Yield vs OPR

Source: Bloomberg, Kenanga

Fig 3: Bursa Malaysia Exchange Monthly ADV

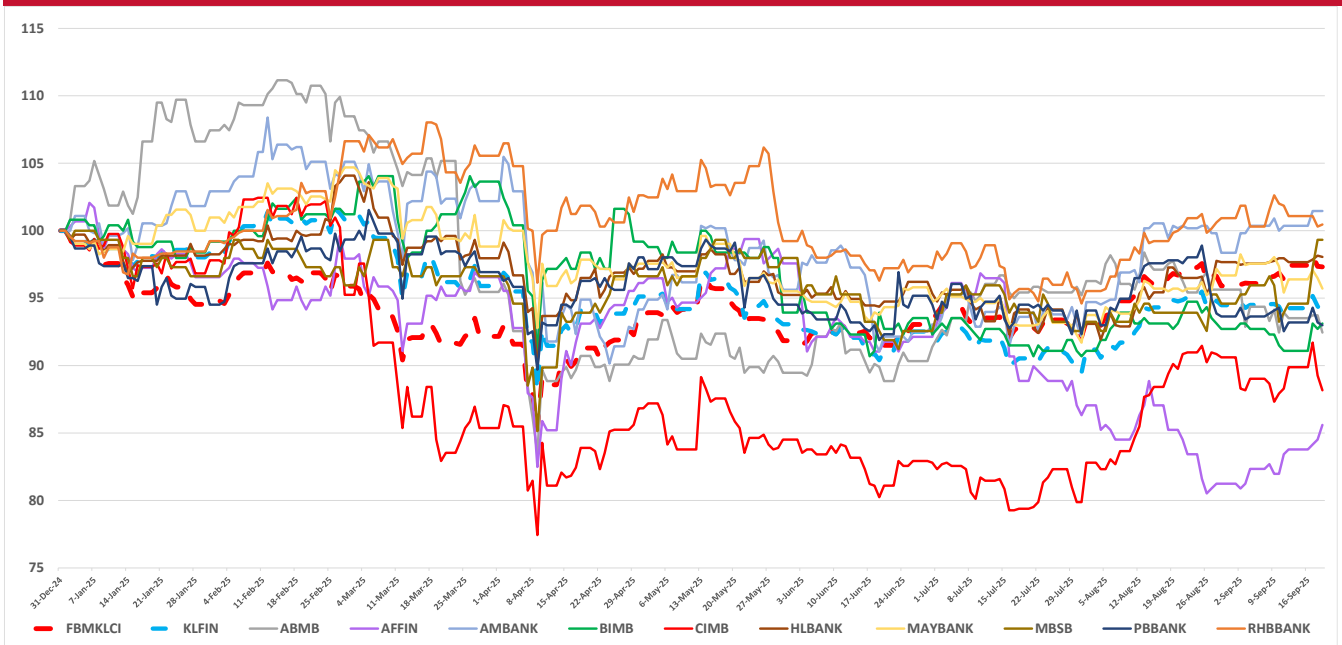


Source: Bursa Malaysia, Kenanga

Sentiment down market-wide. Banking stocks have continued to trade more softly amid prevailing macroeconomic headwinds, with **AMBANK** and **RHBBANK** being the only counters to record marginal year-to-date share price gains. Meanwhile, **HLBANK** has also slightly outperformed the broader KLCI, supported by improved investor sentiment following its announcement of a higher dividend payout.

On the other hand, the weakest YTD performers include: (i) **AFFIN** (-14% YTD), which saw softer earnings delivery and a slower-than-expected realisation of benefits from the Sarawak State Government emerging as a substantial shareholder, and (ii) **CIMB** (-12% YTD), which share price recovery was dampened by political uncertainty in Indonesia, leading to concerns over CIMB Niaga's operations (which contributes c.24% of group PBT).

Fig 4: YTD CY25 Performance of Banking Stocks Against FBM KLCI and KLFIN (as of 19 Sep 2025)



Source: Bloomberg

Maintain OVERWEIGHT on the banking sector. We believe thesector will remain resilient despite economic headwinds that could moderate loan growth, supported by their better expectations for their investment portfolios to sustain earnings.

We do not anticipate asset quality risks, on the back of the sector already being fairly well-provisioned (industry LLC at Jul 2025: 91%) and asset quality risks being limited (industry GIL at Jul 2025: 1.44%). In spite of the added precaution by the sector against US tariffs, ROE expectations remain stable and even with slight increases, which should anchor expectations on the sector in the near-term.

For 4QCY25, our Top Pick is **AMBANK** on the back of a more solid ROE backbone as the group focuses on stronger earnings drivers as opposed to gaining market share in less profitable segments. Following its recent transition into FIRB, the group's newly acquired CET-1 levels of c.15% has led to more generous dividend pay-outs, making AMBANK one of the leaders in dividend yield prospects (c.6%).

Between the large cap banks, we like **HLBANK** as its recently increased payout ratio of 45% improves the stock's dividend yield outlook to c.5%. While this is in line with the sector's average yield, its strong fundamentals highlighted by stellar asset quality (FY25 GIL: 0.54%, credit cost: <10 bps) make HLBANK an attractive longer-term holding.

Lastly, we still like **MAYBANK** in spite of a more conservative loans outlook, no thanks to poorer performing regional operations. Still, MAYBANK maintained its solid footing in the domestic market (reflected in its above-industry domestic loans growth of 6.5% vs industry's 5.1%), overall better-than-industry GIL (Jun 2025: 1.30%) and dividend yields of c.6%.

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Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside	Market Cap (RM m)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE	Net. Div. (sen)	Net Div Yld.
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
Affin Bank Bhd	MP	2.36	2.30	-2.5%	5,980	N	12/2025	23.3	25.4	15.7%	9.1%	10.1	9.3	0.5	5.0%	6.0	2.5%
Alliance Bank Malaysia Bhd	OP	4.36	4.85	11.2%	7,544	N	03/2026	44.2	49.3	1.9%	11.6%	9.9	8.8	0.9	9.7%	18.0	4.1%
AMMB Holdings Bhd	OP	5.56	6.90	24.1%	18,392	N	03/2026	64.4	66.2	6.5%	2.8%	8.6	8.4	0.9	10.1%	31.5	5.7%
Bank Islam Malaysia Bhd	MP	2.30	2.40	4.3%	5,213	Y	12/2025	24.4	27.7	-3.2%	13.7%	9.4	8.3	0.7	7.1%	15.0	6.5%
CIMB Group Holdings Bhd	OP	7.23	7.90	9.3%	77,838	N	12/2025	74.7	77.3	3.3%	3.6%	9.7	9.3	1.1	11.2%	42.0	5.8%
Hong Leong Bank Bhd	OP	20.16	24.50	21.5%	43,701	N	06/2026	232.1	238.4	1.6%	2.7%	8.7	8.5	1.0	11.7%	105.0	5.2%
Malayan Banking Bhd	OP	9.80	11.30	15.3%	118,395	N	12/2025	82.3	86.0	-1.7%	4.6%	11.9	11.4	1.2	10.3%	62.0	6.3%
MBSB Bhd	MP	0.735	0.720	-2.0%	6,043	Y	12/2025	7.2	7.5	26.8%	4.3%	10.2	9.8	0.5	5.2%	3.5	4.8%
Public Bank Bhd	OP	4.24	5.25	23.8%	82,301	N	12/2025	37.3	38.4	1.3%	2.9%	11.4	11.1	1.4	12.4%	22.5	5.3%
RHB Bank Bhd	OP	6.51	7.80	19.8%	28,396	N	12/2025	71.6	74.5	-0.5%	4.0%	9.1	8.7	0.8	9.4%	44.5	6.8%
SECTOR AGGREGATE					**393,803**					**1.5%**	**4.0%**	**10.5**	**10.1**	**1.1**	**10.3%**		**5.3%**

Name	Terminal growth (%)	Sustainable ROE (%)	Cost of Equity (%)	Applied PBV (x)	Target Price (RM)	Call	Remarks
Affin Bank Bhd	3.0	6.25	9.9	0.47	2.30	MP	
Alliance Bank Malaysia Bhd	3.0	10.0	10.5	0.93	4.85	OP	+5% ESG Premium
AMMB Holdings Bhd	3.0	10.0	9.9	1.02	6.90	OP	
Bank Islam Malaysia Bhd	3.5	8.0	10.2	0.67	2.40	MP	
CIMB Group Holdings Bhd	3.5	11.5	11.2	1.05	7.90	OP	+5% ESG Premium
Hong Leong Bank Bhd	-	-	-	-	24.50	OP	Sum-of-Parts
Malayan Banking Bhd	3.5	11.5	9.5	1.33	11.30	OP	
MBSB Bhd	3.0	6.0	9.2	0.48	0.720	MP	
Public Bank Bhd	4.0	13.0	9.9	1.54	5.25	OP	+5% ESG Premium
RHB Bank Bhd	2.5	10.0	10.2	0.98	7.80	OP	

Source: Kenanga Research

Building Material

Making a Splash

OVERWEIGHT
↔

By Teh Kian Yeong I tehky@kenanga.com.my; Nigel Ng I nigel@kenanga.com.my

Water is emerging as the next big theme, with sentiment toward water-related stocks gaining traction after past capex delays. The National Water Services Commission (SPAN) has reaffirmed its focus on lowering non-revenue water (NRW), approving RM7.7b in capex for water projects. The new data centre water tariff, rising by at least 50%, could further boost cash flows for water operators and trigger a fresh wave of infrastructure spending. Pipe manufacturers stand to benefit, while stable ASPs and easing input costs support margin normalisation. Steel and aluminium demand is expected to rise in late 2025, supported by China's anti-involution policy. We remain OVERWEIGHT on the sector with ENGTEX (OP; TP: RM0.62) as our top pick.

China's demand and supply constraints kept aluminium prices elevated. Aluminium prices have been on the uptrend over the past three months which stayed firm between USD2,550/MT and USD2,700/MT, as opposed to USD2,300/MT-USD2,500/MT in 2QCY25, thanks to sustained strength of Chinese consumption while the Chinese government has imposed production cap to balance environmental goals as some smelters there are powered by coal. On the other hand, the US's 25% additional tariff on aluminium imports globally introduces short-term market uncertainty. The tariff will raise costs for US buyers and could prompt main exporters to the US, such as Canada and Mexico, to redirect shipments to other markets like the EU. However, the impact on China is likely minimal, as 80%-90% of its aluminium production is consumed domestically. In the mediumterm, the market is expected to adjust through trade diversions or production cut to maintain demand-supply balance. As such, we maintain our view that China's demand rebound remains the key driver of aluminium prices going forward. We retain our average aluminium price assumptions at USD2,450/MT for 2025 and USD2,550/MT for 2026 as the recent solid aluminium price movement is already factored in, particularly with **PMETAL (OP; TP: RM6.10)** having hedged 40%-50% of 2026 requirements at USD2,600/MT

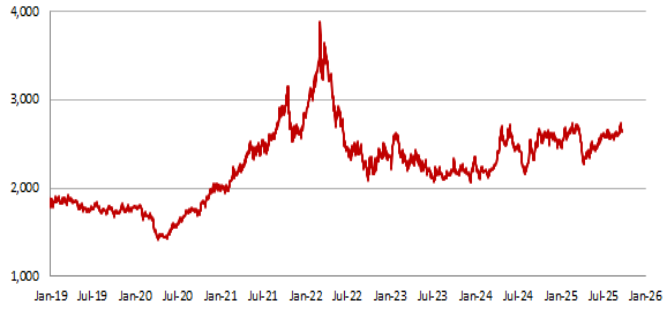
Steel prices poised for a rebound. China's steel demand is expected to grow modestly in 2025, supported by a stabilising property market, government stimulus, and improved consumer sentiment. Weak profitability has already prompted production cuts, and China's anti-involution policies aim to restore corporate earnings and curb overcapacity. This could accelerate consolidation among struggling steel producers, providing upward support for steel prices. With current prices near historical lows, the conditions are favourable for a potential rebound. Stabilising steel prices should provide steadier input costs for firms like **ENGTEX** and **ULICORP (OP; TP: RM1.83)**, helping to smooth earnings volatility.

Data centres face higher water costs. Effective September 2025, a new water tariff sub-category for data centres has taken effect, resulting in steep increases of 50% in Johor and 80% in Selangor, raising tariffs to RM5.31–RM5.33/m³, reclassified from the non-domestic segment. Investor sentiment toward water-related stocks has improved, supported by ongoing tariff adjustments and steady progress in water infrastructure development. Malaysia's data centre boom is straining water supply, with reserve margins at just 15%, well below the 25% target. The tariff hike is expected to inject fresh capital into water operators, accelerating capex and positioning ENGTEX to benefit from a likely ramp-up in pipe replacement orders starting next year. Under the tariff-setting mechanism, SPAN has approved RM7.7b in capex for the second implementation period (TP2). Positive developments include: (i) PBA (Not Rated) planning to complete three water pipeline projects worth RM189m over the next two years, (ii) PAAB building two new water treatment plants in Seberang Perai worth RM1b, and (iii) Sarawak's allocation of RM1.08b for water pipe upgrades.

Several mega infrastructure projects are set to be rolled out in CY25, including: (i) Sungai Perak Raw Water Transfer Scheme to Penang (SPRWTS), (ii) Langat 2 water treatment plant, and (iii) Sungai Rasau phase 2. Based on our estimates, the total value of the water pipe components for these projects is approximately RM1.1b.

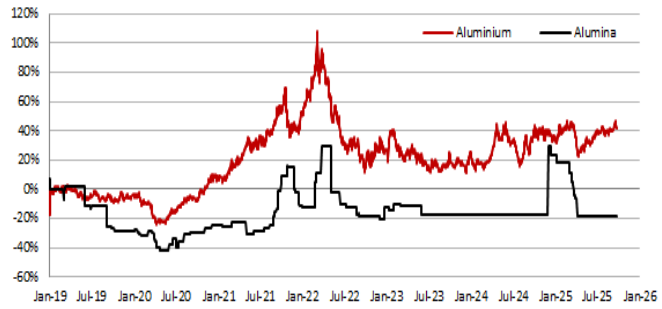
ENGTEX, which historically garners about 50% market share for water pipes,is our sector top pick given: (i)the huge potential in the water pipe replacement market locally, (ii) its dominant market position in both large-diameter mild steel (MS) pipes and ductile iron (DI) pipes, and (iii) its strong earnings visibility underpinned by significant order backlogs and a strong pipeline of new projects.

Aluminium Prices



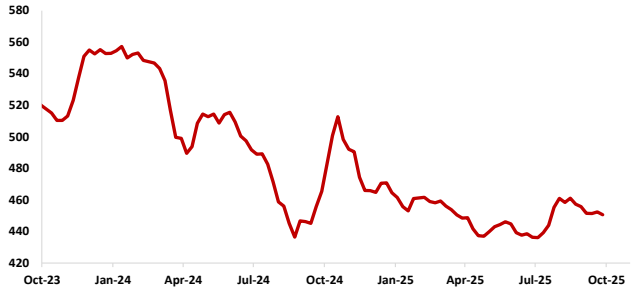
Source: Bloomberg, Kenanga Research

Aluminium vs. Alumina Prices – % Movement Since 2018



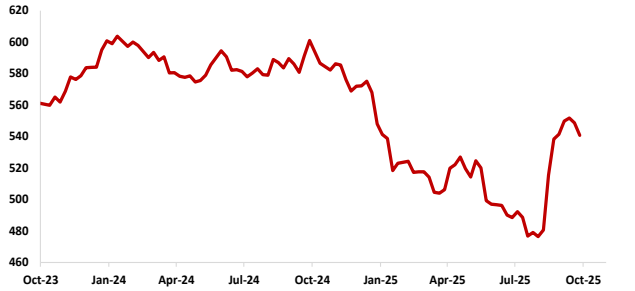
Source: Bloomberg, Kenanga Research

China Rebar Steel Prices



Source: Bloomberg, Kenanga Research

Malaysia Rebar Steel Prices

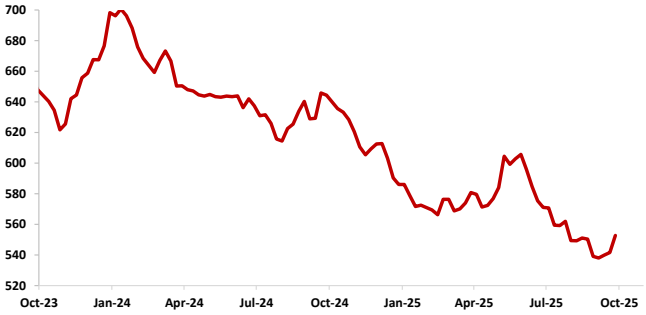


Source: Bloomberg, Kenanga Research

Malaysia Cold Rolled Coil Prices

Source: Bloomberg, Kenanga Research

Malaysia Hot Rolled Coil Prices



Source: Bloomberg, Kenanga Research

Peer Table Comparison

Name	Rating	Last Price @ 19/9/25 (RM)	Target Price (RM)	Upside	Market Cap (RM m)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE	Net. Div. (sen)	Net Div Yld
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
ENGTEX GROUP BHD	OP	0.590	0.620	5.1%	467.9	Y	12/2025	(1.1)	3.9	-216.7%	242.9%	N.A.	15.0	0.4	-0.7%	0.8	1.3%
PRESS METAL ALUMINUM HOLDINGS BHD	OP	5.70	6.10	7.0%	46,965.8	Y	12/2025	24.3	27.9	8.2%	14.7%	23.4	20.4	4.8	22.0%	9.7	1.2%
UNITED U-LI CORPORATION BHD	OP	1.56	1.83	17.3%	339.8	Y	12/2025	18.7	22.9	13.3%	22.3%	8.3	6.8	0.8	10.3%	8.0	5.1%
Sector Aggregate					**47,773.4**					**7.7%**	**16.3%**	**23.4**	**20.1**	**4.3**	**18.5%**		**2.5%**

Source: Kenanga Research

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Construction

Contracts Rolling In

OVERWEIGHT
↔

By Teh Kian Yeong I tehky@kenanga.com.my

We expect strong contract flows in the construction sector over the next three months before 2026 rolls in, supported by a robust pipeline of data centre roll-outs and impending public infrastructure projects. YTD to end-Aug, a total of RM126.7b worth of main contractor contracts have been awarded, on track to meet our full-year 2025 contract awards assumption of RM180b. At least three more data centre tender results are anticipated before year-end, while the upcoming Sabah State Election should accelerate infrastructure awards in the state. Nationwide, we also expect further public project roll-outs post-Budget 2026 in Oct. We maintain our OVERWEIGHT call on the sector, with GAMUDA (OP; TP: RM6.13) as our Top Pick, given large-cap names typically outperforming during sector upcycles.

Strong contract flows. According to the Construction Industry Development Board (CIDB), a total of RM126.7b worth of main contractor contracts were awarded YTD as of end-August 2025, with government projects accounting for 26% and private projects making up 74%. Although this represents just 55% of 2024 total of RM230.4b, it is broadly in line with RM127.6b recorded in the first eight months of 2024. We maintain our annual contract award forecast of RM180b for 2024–2026. We believe more awards are on track, underpinned by ongoing public projects and robust private sector activity, particularly in data centres. The upcoming Sabah State Election should also accelerate contract flows in the state.

Infrastructure projects in the pipeline. We remain positive on the construction sector's up-cycle into 4QCY25, supported by both public infrastructure and private developments. While the timeline on the MRT3, which has received final approval from the Transport Ministry, remains uncertain, several key projects are progressing, including the Penang LRT Mutiara Line Packages 2 & 3, Penang Airport expansion, Phase 2 of the Pan Borneo Highway, Sabah-Sarawak Link Road, Subang Airport redevelopment, and the Johor LRT/ART. The KL–Singapore HighSpeed Rail remains a medium-term catalyst. Meanwhile, the Upper Padas Water Dam in Sabah and the EPCC contract for the Kerian Water project in Perak are still pending finalisation, though **GAMUDA** has already secured both water concessions.

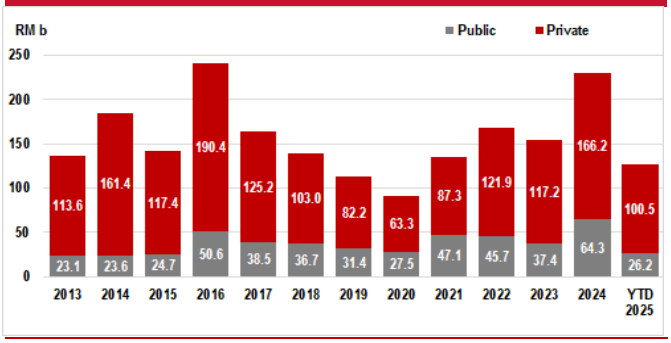
Data centre story to continue. In 1HCY25, at least two US tech giants, Microsoft and Pearl Computing acquired land in Malaysia for data centre expansion. Notably, **GAMUDA** sold a 389-acre parcel of land in Springhill Industrial Park, Port Dickson to Pearl Computing for RM455.2m in May, alongside RM1b in enabling infrastructure works. This positions **GAMUDA** well for future projects on the site, which can support 800–1,000MW of data centre capacity, translating into RM14b-RM20b worth of contracts. **GAMUDA** has already secured two of Pearl Computing's data centre core and shell contracts worth RM2.14b from landowner **ECOWLD (MP; TP: RM2.15)**, with mechanical and electrical (M&E) works pending and three more projects still under tender. Springhill's initial tenders comprising six packages are expected in 2026. **SUNCON (OP; TP: RM6.50)** and **IJM (OP; TP: RM3.40)** are also actively bidding in this segment.

According to **TENAGA (OP; TP: RM17.20)**, seven data centre projects (733MW) signed Energy Supply Agreements (ESAs) YTD to mid-Aug 2025, bringing the cumulative total to 47 projects (6,700MW), of which 24 projects (3,500MW) have been completed. We expect the data centre boom to persist for at least the next two years and maintain our assumption of 700MW new capacity annually, equivalent to approximately RM21b in construction contract value annually.

Current valuations for larger caps remain close to their 5-year averages. The construction sector has outperformed this year, largely driven by the data centre boom, with the KLCON Index up 8% YTD vs. the FBMKLCI's -3%. Within our coverage, **SUNCON** led the gainers (+32% YTD), followed by **KIMLUN** (+22%) and **GAMUDA** (+16%). Valuation-wise, the bigger caps, **GAMUDA, SUNCON** and **IJM,** are trading at CY26F PERs of 19.2x, 21.8x, and 17.8x, compared to their 5-year means of 18.3x, 23.0x, and 17.1x, respectively. We believe there is still room for further re-rating given the sustained data centre growth story. For mid-to-small caps, valuations are mixed: **KERJAYA** trades at 12.6x CY26 PER vs. 14.9x mean, **KIMLUN** at 7.3x vs. 17.1x mean, while **WCT's** 14.9x stands above its 5-year mean of 9.8x.

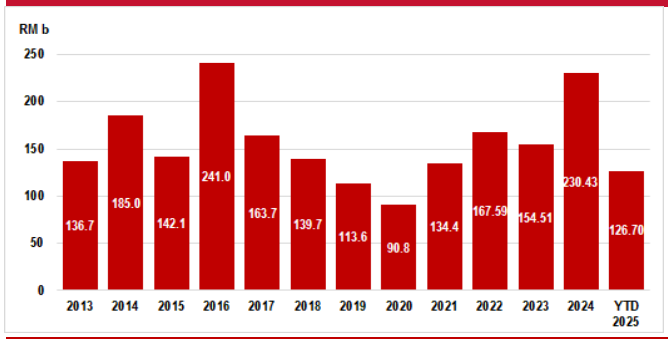
Maintain OVERWEIGHT for the sector. Despite slower-than-expected roll-outs of public projects, we remain bullish on the construction sector given persistent demand from data centres, fuelled by sustained capex from global tech firms. All stocks under our coverage are rated **OUTPERFORM**. Our **Top Pick is GAMUDA** for its: (i) strong positioning in upcoming data centre tenders, (ii) proven ability to secure overseas projects, (iii) robust earnings visibility backed by a record RM38.4b order book, and (iv) progress in renewable energy. We also like large caps **SUNCON** and **IJM**, while mid-cap **KERJAYA (OP; TP: RM2.30)** offers attractive >5% dividend yields. Among small caps, **KIMLUN (OP; TP: RM1.51)** should benefit from upcoming infrastructure roll-outs, while **WCT (OP; TP: RM1.25)** could see a re-rating from the listing of **PARADIGM (Not Rated)**.

Malaysian Projects Awarded by Sector



Source: CIDB

Malaysian Projects Awarded



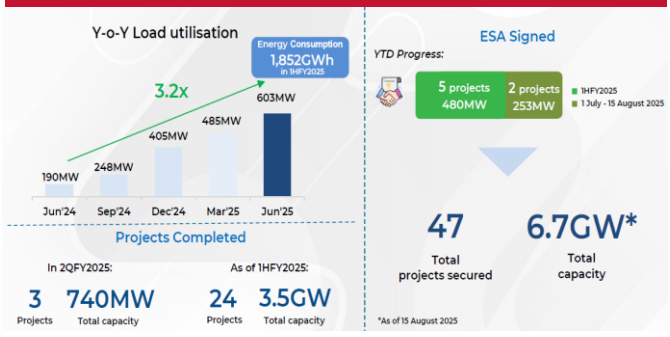
Source: CIDB

Key Infrastructure Projects

Projects	Value (RM b)	Status	
		Ongoing	Pending
MRT3	45.0		√
Mutiara Line, Penang LRT	16.8	√	
Penang Airport Expansion	1.5		√
Subang Airport Redevelopment Plan	3.7		√
KL-SG HSR	N/A		√
Johor Bahru ART/LRT	N/A		√
Johor Bahru-Singapore RTS	4.3	√	
Central Spine Road	10.7	√	
Pan Borneo Sarawak Phase1	16.0	√	
Pan Borneo Sarawak Phase 2	4.6		√
Pan Borneo Sabah Phase 1	15.3	√	
Pan Borneo Sabah Phase 1B	15.7		√
Sabah Sarawak Link Road Phase 1	5.2	√	
Sabah Sarawak Link Road Phase 2	7.2		√
Large-scale flood mitigation projects	13.0		√
Rasau Water Treatment Plant	4.5	√	
Kuching Autonomous Rail Transit	6.0	√	

Source: Kenanga Research, Media reports

Data Centres' Power Demand Requirement



Source: Tenaga

Land Sale Transactions

Date	Buyer	Seller	Location	Size (acres)	Value (RM m)
07 Jul 2023	STT GDC	CRESNDO	Pulai, Johor	22.4	117.1
15 Nov 2023	Epoch Digital	CRESNDO	Pulai, Johor	20.4	111.0
17 Nov 2023	Microsoft	CRESNDO	Pulai, Johor	60.3	315.2
04 Apr 2024	Microsoft	CRESNDO	Pulai, Johor	25.3	132.5
08 May 2024	Bridge DC	PGLOBE	Plentong, Johor	47.9	238.3
13 May 2024	Digital Hyperspace	AME	I-Techvalley, Pulai, Johor	34.5	209.8
30 May 2024	Bridge DC	MAHSING	Mah Sing DC Hub	17.6	152.9
07 Jun 2024	Microsoft	ECOWLD	Pulai, Johor	123.1	402.3
02 Jul 2024	Equalbase	Sunway Group	Sunway City Iskandar Puteri, Johor	64.0	380.0
12 Jul 2024	Digital Halo	CRESNDO	Pulai, Johor	20.5	115.9
29 Jul 2024	Equinix	Cyberview	Cyberjaya	4.0	23.0
02 Aug 2024	Bridge DC	PGLOBE	Plentong, Johor	19.8	99.0
26 Aug 2024	NTT Global DC	TROP	Pulai, Johor	68.5	383.1
09 Oct 2024	ZData Technologies	TROP	Gelang Patah	38.5	234.0
28 Oct 2024	Bridge DC	MAHSING	Mah Sing DC Hub	35.7	310.8
27 Jan 2025	Microsoft	CRESNDO	Pulai, Johor	24.1	119.8
17 Feb 2025	Microsoft	ECOWLD	Eco Business Park I, Iskandar	38.5	694.0
25 Feb 2025	Pear Computing	ECOWLD	Eco Business Park V, Selangor	58.2	266.1
05 May 2025	Pear Computing	GAMUDA	Springhill Industrial Park, PD	389.0	455.2

Source: Bursa & various news reports

Data Centre Contract Awards

Date	Developer	Contractor	Location	Value (RM m)	Completion
05 Oct 2023	K2	SUNCON	Sedenak Tech Park, Johor	190.0	4Q24
21 Mar 2024	US-based MNC	SUNCON	Cyberjaya	747.8	2Q27
26 Apr 2024	TM Technology	GADANG	Klang Valley DC Block 2, Cyberjaya	280.0	Apr 2026
30 Apr 2024	US-based MNC	PASUKGB	Selangor	57.0	Jun 2025
24 May 2024	Google	GAMUDA	Elmina Business Park, Selangor	1,743.6	Sep 2026
29 May 2024	NEXT DC	MITRA	Petaling Jaya, Selangor	86.6	Dec 2025
10 Jun 2024	Yondr	SUNCON	Sedenak Tech Park, Johor	1,500.0	Feb 2026
26 Jun 2024	TM Technology	IJM	Iskandar Puteri DC, Johor	331.7	3Q25
19 Aug 2024	EXISM Jalil Link	BNASTRA	EXSIM Hyperscale DC @ Bukit Jalil	574.0	Jan 2026
19 Aug 2024	International DC developer	IJM	Gelang Patah, Johor	254.0	1Q26
06 Sep 2024	Yondr	SUNCON	Sedenak Tech Park, Johor	82.0	Feb 2026
30 Oct 2024	Yondr	SUNCON	Sedenak Tech Park, Johor	265.0	Feb 2026
01 Nov 2024	BCEI	GAMUDA	Cyberjaya	451.4	1Q26
Feb 2025	Unknown	IJM	Johor	259.4	N/A
25 May 2025	K2	SUNCON	Sedenak Tech Park, Johor	392.7	Mar 2026
29 May 2025	US-based MNC	SUNCON	Selangor	1,155	Feb 2027

Source: Bursa

Peer Table Comparison

Name	Rating	Last Price @ 19/9/25 (RM)	Target Price (RM)	Upside	Market Cap (RM m)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE	Net. Div. (sen)	Net Div Yld
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
GAMUDA	OP	5.52	6.13	11.1%	32,301.2	Y	07/2026	23.8	33.7	37.3%	41.6%	23.2	16.4	2.4	11.0%	10.0	1.8%
IJM	OP	2.87	3.40	18.5%	10,059.8	Y	03/2026	15.6	16.2	20.9%	4.0%	18.4	17.7	1.0	5.5%	8.0	2.8%
KERJAYA	OP	2.25	2.30	2.2%	2,829.0	Y	12/2025	16.7	18.1	29.8%	8.0%	13.5	12.5	2.3	17.8%	12.0	5.3%
KIMLUN	OP	1.46	1.51	3.4%	567.5	Y	12/2025	21.5	20.0	52.3%	-6.9%	6.8	7.3	0.6	9.3%	2.0	1.4%
SUNCON	OP	6.13	6.50	6.0%	8,060.9	Y	12/2025	25.0	28.1	99.5%	12.2%	24.5	21.8	8.2	35.0%	20.0	3.3%
WCT	OP	0.840	1.25	48.8%	1,309.5	Y	12/2025	5.0	5.6	67.4%	12.7%	16.8	14.9	0.4	2.1%	0.5	0.6%
Sector Aggregate					**55,127.9**					**45.5%**	**25.0%**	**21.0**	**16.8**	**1.8**	**8.7%**		**2.5%**

Source: Kenanga Research

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Consumer

Headwinds Hold Back the Tailwinds

NEUTRAL
↔

By Thin Yun Jing I thinyj@kenanga.com.my

We maintain NEUTRAL on the sector. Consumer sentiment remains subdued amid muted real wage growth, with recent BNM data showing a 1.9% decline in real wages between 1QCY20 and 1QCY25, and rising operating costs. The removal of key policy uncertainties, particularly clarity on RON95 petrol subsidy rationalisation, should help stabilise sentiment and anchor spending, though a strong demand recovery still appears unlikely in the near term. Policy-driven cost pressures, including SST expansion, higher electricity tariffs and increased EPF contributions for foreign workers, are expected to weigh on margins, but these should be partly offset by continued fiscal support through STR and SARA as well as a stronger MYR. Importantly, the upcoming Budget 2026 could introduce fresh income-support measures, including calls for a possible civil service bonus, as well as an expanded STR cash aid that could lift disposable incomes, particularly among lower-income households. We continue to see opportunities in value-focused, mass-market names that are well-positioned to capture spending from cost-conscious consumers, with MRDIY (OP; TP: RM2.04) and AEON (OP; TP: RM1.55)as our top picks. MRDIY stands out for its value-for-money appeal and scale-driven cost advantage. Meanwhile, AEON, whose valuation has fallen to attractive levels amid typical soft 2Q and 3Q, offers leverage to mass-market consumption trends through its expanding private-label portfolio and mall refurbishment strategy.

Retail momentum slows as households rein in discretionary spending. According to Retail Group Malaysia (RGM), retail sales contracted 3% YoY in 2QCY25, missing the industry's earlier projection of -1% andbringing 1H retail sales growth to just +1.5%.Higher living costs and rising retail prices for non-essential goods continued to weigh on household budgets, with RGM noting that consumers, especially those in urban areas where rent and transport costs are higher, have been cutting back on discretionary spending and focus on essentials such as groceries, fuel, and utilities. Non-essential segments absorbed the heaviest blow, with sales of fashion (-8%), personal care (-11%), and department stores (-17%) seeing sharp declines, while mini-markets and convenience stores grew 11% as shoppers shifted toward cheaper, proximity-based options.

Elevated operating costs from higher electricity tariffs, SST expansion, and import price pressures linked to ongoing US trade tensions added to retail inflation, while sentiment remains muted despite Bank Negara's OPR cut to 2.75%, which could support big-ticket purchases over time. Reflecting these headwinds, **RGM lowered its CY25 retail sales growth forecast again to 2.7%** (from 3.1% and 4.3% previously), with growth now expected at+2.6% in 3Q (vs. +2.8% prior) and +3.5% in 4Q, aided by year-end holidays and festive spending.

RON95 subsidy clarity lifts policy overhang, offering modest relief for the rakyat. The government's new targeted subsidy for RON95 petrol, effective 30 September, provides all Malaysians with valid driving licenses a subsidised price of RM1.99/litre (down from RM2.05) for up to 300 litres per month, while non-citizens and large companies will pay the unsubsidised rate of about RM2.60, generating estimated fiscal savings of RM2.5b to RM4b.By opting for a broad-based mechanism instead of an income-based approach or exposing households to unsubsidised fuel prices, the move removes a key policy uncertainty that has weighed on the consumer sector, improving visibility on fuel costs and inflation expectations (Kenanga's CY25 inflation forecast at 1.5%, revised down from 1.7%), and capping downside risks to consumption. This reflects continued policy support amid cost-of-living pressures, though the actual savings to motorists is modest - around 6 sen per litre or RM9–RM12 per month on average (up to RM18 if the quota is fully used), equivalent to just 0.1%–0.2% of average disposable household income.

Given the limited per-household savings, the policy is unlikely to materially shift demand or spending patterns, with the mass market seeing only about RM10/month in additional disposable income. Even on a stretched assumption that 16m motorists benefit and channel the full RM18 monthly savings into consumption, the total boost to spending would be roughly RM290m, which would be equivalent to 0.3% of total annual private consumption annually. While small, this could still marginally benefit retail spending and buoy names such as **MRDIY**, **AEON** and **PADINI (OP; TP: RM2.35)**.

SARA RM100 one-off cash aid to support essentials. The recently announced universal RM100 SARA cash aid is providing broad-based cost-of-living relief ahead of the year-end shopping season, with strong first-week data showing 54% of recipients had utilised the aid and c.34% of the RM2.2b allocation already spent, with average basket sizes of RM60–RM65. Value-focused retailers are the most direct beneficiaries, with **99SMART (NOT RATED)**participating across nearly 1,000 stores,**ECOSHOP (NOT RATED)**in 159 stores and **MRDIY**in 125 stores under the SARA merchant network, positioning them to capture increased footfall and transaction volumes. While the RM100 aid is restricted to essential items, the uplift, equivalent to roughly 4% of monthly disposable income for B40 households (see Exhibit 1 for breakdown

by state and income group), may still lead to spillover spending into discretionary categories as households reallocate existing budgets, potentially benefiting mass-market names such as **AEON** and **PADINI**.

Policy-driven cost pressures to persist, yet pass-through remains contained. Several policy shifts in 2HCY25 are expected to feed into operating costs, including higher electricity tariffs and the expanded SST on commercial leasing and rental services, from July, as well as the new 2% EPF contribution for foreign workers starting in October. The SST changes are likely to have the most notable impact on mall-based players, with both AEON (10 of its 28 malls affected) and PADINI expecting an increase of c.1% of total operating costs, though the effect may be more visible at the earnings level. MRDIY, with a smaller mall footprint, foresees a more manageable 1%–1.5% impact on PAT from rental-related costsDespite these cost pressures, most retailers do not intend to raise retail prices, opting instead to absorb the additional costs. On a brighter note, astronger MYR should help offset part of these cost headwinds by easing import costs, particularly for players in apparel, retail and food ingredients.

Budget 2026: potential upside from disposable income lift. With Budget 2026 set to be tabled on 10 October, consumer-related measures are likely to remain a key focus, particularly ahead of the next general election due by mid-Feb 2028. The Chief Secretary to the Government has hinted at "good news" for civil servants and Malaysians as a whole, with the Congress of Unions of Employees in the Public and Civil Services (Cuepacs) lobbying for a one-month bonus, the first since 2012, for public sector employees. Cash assistance under the STR programme is also widely expected to be expanded to ease cost-of-living pressures, especially among lower-income households. While broad tax cuts appear unlikely given fiscal constraints, tax experts see room for more targeted relief measures for the middle-income group. In addition to direct income measures, the upcoming budget is also expected to prioritise tourism-related initiatives ahead of Visit Malaysia 2026, potentially benefitting F&B players such as **F&N (OP; TP: RM30.70)** and **NESTLE (MP; TP: RM85.10)**. Any announcements that boost disposable income, particularly for the lower- and middle-income segments, could provide incremental tailwinds for mass-market spending.

We maintain our **NEUTRAL** stance on the sector. While cost challenges and policy changes remain key areas to watch, we believe these headwinds will be partially offset by continued fiscal support (including STR and SARA), a stronger MYR and selective resilience in categories such as F&B. In our view, a sustained sector re-rating would still hinge on: (i) a more evident pick-up in real consumer spending, and (ii) better earnings visibility, especially among large-cap players.

Our top picks for the sector are:

- **MRDIY**for: (i) its dominant position in Malaysia's home improvement market, (ii) its size that translates to strong bargaining position vs. its suppliers, and economies of scale, and (iii) its continued efforts to improve operational efficiency such as the introduction of an automated inventory system.
- **AEON** for: (i) its ongoing mall refurbishments, which drive sustained occupancy rates and favourable rental renewals for its property management services division, (ii) the expansion of its private-label offerings to enhance retail margins and cater to cost-conscious consumers seeking more affordable alternatives, and (iii) its digital initiatives, such as self-checkout, to reduce costs.

Exhibit 1: Monthly Household Disposable Income by State and Income Category (RM)

State	B40	M40	T20
Malaysia (Median)	**2,690**	**5,794**	**13,967**
Malaysia	**< 4,500**	**4,500 - 9,919**	**≥ 9,920**
Selangor	< 7,010	7,010 - 12,889	≥ 12,890
Kuala Lumpur	< 7,130	7,130 - 13,349	≥ 13,350
Johor	< 4,880	4,880 - 10,159	≥ 10,160
Penang	< 4,740	4,740 - 9,479	≥ 9,480
Sarawak	< 3,580	3,580 - 7,979	≥ 7980

**Note: median disposable income is estimated based on available data on median household income*

Source: Household Income Survey Report 2022, Kenanga Research

Exhibit 2: Raw Material / Commodities Price Trend

	9/19/2025	1M	QTD	2QCY25	YTD	vs. 2024 average price	vs. 2023 average price	vs. 2022 average price	Future Price Trend*
Sugar (USD/lb)	15.9	-3.3	2.5	-17.9	-17.6	-23.5	-34.1	-15.7	↑
Coffee (USD/lb)	378.1	-1.6	23.2	-19.2	18.2	61.1	120.4	76.5	↑
Cocoa (USD/MT)	6,908.0	-8.3	-26.2	18.4	-40.8	-14.6	109.4	180.4	↑
Milk (USD/MT)	3,790.0	-5.5	-7.2	0.8	-2.6	10.2	23.0	-2.5	
Wheat (USD/MT)	352.7	-2.7	-3.4	0.2	-5.8	-10.3	-20.4	-42.7	↓
Corn (USD/Bushel)	348.4	0.4	3.1	-10.5	-8.0	-1.8	-24.2	-38.3	↑
Soybean (USD/Bushel)	1,013.8	-1.5	-1.0	0.9	1.6	-8.0	-28.1	-34.0	↑
CPO (RM/MT)	4,321.0	-1.7	9.2	-16.9	-11.1	2.9	13.3	-14.9	↑
Cotton (USD/lb)	64.0	-2.3	-3.5	-0.8	-6.5	-16.6	-23.0	-43.0	↑
Aluminium (USD/MT)	2,658.1	0.7	2.3	3.2	4.8	9.1	17.3	-1.8	↓
Baltic Dry Index	2,259.0	11.6	51.7	-6.8	126.6	28.7	63.9	16.8	
WTI Crude Oil (USD/Barrel)	65.7	3.9	0.9	-8.9	-8.4	-13.3	-15.3	-30.3	
Volatility Index	15.3	-0.5	-8.6	-24.9	-11.9	-1.7	-9.3	-40.4	
Dollar Index	1,205.0	0.3	1.2	-6.6	-8.0	-3.8	-2.8	-3.8	
USDMYR	4.22	-0.1	-0.3	-5.1	-5.6	-7.7	-7.5	-4.1	
Shanghai Shipping Index	1,087.41	-7.4	-20.6	23.2	-28.2	-29.9	16.0	-60.6	

*Source: Bloomberg, Kenanga Research, *World Bank Commodity Price Forecasts (29 April 2025)*

Peer Table Comparison

Name	Rating	Last Price @ 19/9/25 (RM)	Target Price (RM)	Upside	Market Cap (RM m)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE	Net Div. (sen)	Net Div. Yld.
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
CONSUMER																	
AEON CO. (M) BHD	OP	1.24	1.55	25.0%	1,741.0	Y	12/2025	10.7	11.5	-0.7%	8.0%	11.6	10.8	0.9	7.6%	5.0	4.0%
FARM FRESH BHD	OP	2.13	2.36	10.8%	3,998.2	Y	03/2026	7.5	8.5	29.2%	13.0%	28.5	25.2	4.9	18.2%	3.0	1.4%
FRASER & NEAVE HOLDINGS BHD	OP	27.06	30.70	13.5%	9,925.0	Y	09/2025	135.5	159.0	-11.9%	17.3%	20.0	17.0	2.6	13.4%	75.0	2.8%
MR D.I.Y. GROUP (M) BHD	OP	1.57	2.04	29.9%	14,873.5	Y	12/2025	7.0	7.8	14.5%	12.4%	22.5	20.1	7.1	33.6%	5.8	3.7%
NESTLE (MALAYSIA) BHD	MP	94.72	85.10	-10.2%	22,211.8	Y	12/2025	210.5	240.6	23.4%	14.3%	45.0	39.4	32.2	72.6%	205.0	2.2%
PADINI HOLDINGS BHD	OP	1.99	2.35	18.1%	1,963.9	Y	06/2026	17.4	18.2	6.0%	4.5%	11.4	10.9	1.5	14.0%	9.1	4.6%
POWER ROOT BHD	MP	1.27	1.20	-5.5%	537.6	Y	03/2026	7.7	8.2	6.9%	5.6%	16.4	15.6	1.9	11.5%	7.0	5.5%
QL RESOURCES BHD	MP	4.39	4.52	3.0%	16,019.1	Y	03/2026	13.3	14.5	6.7%	8.7%	33.0	30.3	4.4	15.4%	5.0	1.1%
KAREX BHD	OP	0.815	0.850	4.3%	858.6	Y	06/2026	3.4	3.8	343.8%	13.8%	24.2	21.2	1.8	7.5%	1.5	1.8%
SECTOR AGGREGATE					**72,128.7**					**8.6%**	**12.2%**	**27.0**	**24.1**	**4.8**	**17.7%**		**3.0%**

Source: Bloomberg, Kenanga Research

Glove

Prefer Players with Strong Management and Balance Sheet

OVERWEIGHT
↔

By Raymond Choo Ping Khoon I pkchoo@kenanga.com.my

We remain OVERWEIGHT on the sector. Despite lack of near-term catalysts, Malaysian glove stocks are trading at deep value levels, priced close to the worst of the down-cycle. The glove sector under our coverage is currently trading at 2.0 SD below its historical 1-year forward average. While earnings may remain weak in the near term, structural demand and supply rationalisation offer long-term upside. While evolving tariffs actions and trade dynamics may limit near-term visibility, the present low inventory levels could spark a sudden surge or uptick in orders. Anecdotal evidence suggests that despite the impact of tariff-related disruptions, there is only so long customers can hold off purchases. Our Top Pick is KOSSAN (OP↔; TP: RM2.70↔).

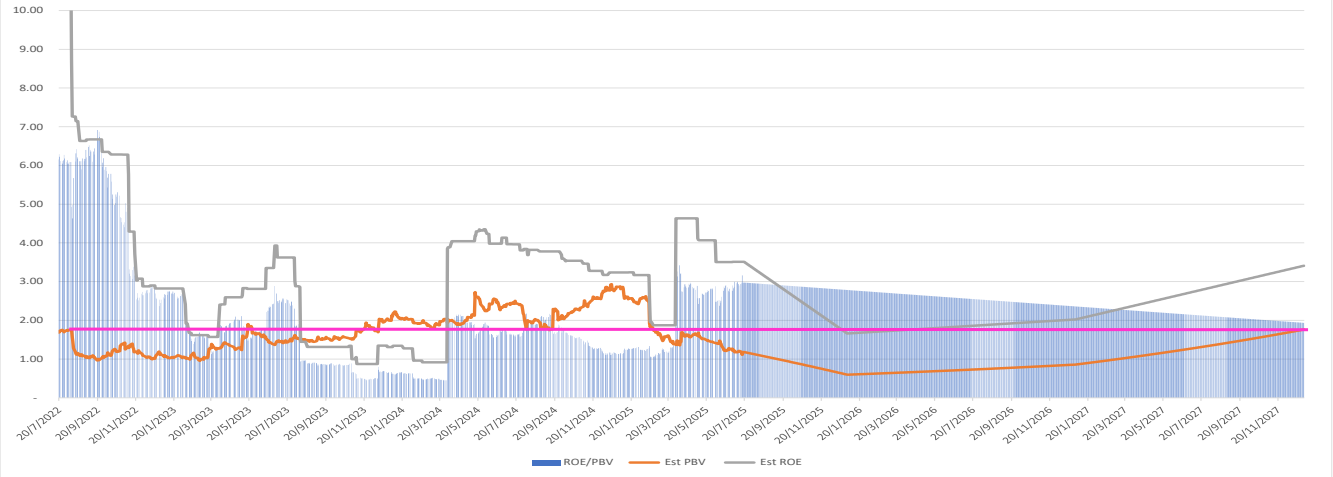
Lack catalysts but trading at deep value, pricing at close to worst of the down-cycle. Malaysian glove stocks are trading at deep value levels, pricing them close to the worst of the down-cycle (see Exhibit 1). The glove sector under our coverage is currently trading at 2.0 SD below its historical 1-year forward average.While earnings may remain weak in the near term, structural demand and supply rationalisation offer long-term upside.Factoring in the 80%-100% tariffs imposed on China medical gloves in 2025-26, the pricing gap between Malaysia and China producers for US exports still favours the former.We believe given the current geopolitical tensions between the US and China, and implications towards trade restrictions and tariffs, American buyers are less likely to source supplies, including gloves, from China. For illustration purposes, a 25% tariff is expected to raise Malaysian gloves ASP from USD19-USD20 per 1,000 pieces to USD23.75-USD25 per 1,000 pieces. In the case of Chinese glovemakers, a 50% + 30% tariff hike is expected to raise Chinese glove producers' ASP to USD27-USD28.8 per1,000 pieces (from an assumed base case ASP at USD15-16 per 1,000 pieces). This renders Malaysian gloves 12% cheaper. Anecdotal evidence suggest that despite the impact of tariff-related disruptions, there is only so long customers can hold off making purchases.If past history is of any guide, based on previous down-cycles, Malaysian glove makers' stock prices will start to re-rate once the ASP concerns subside, and demand starts flowing back to Malaysian glover makers.

We believe **KOSSAN(OP; TP: RM2.70).**would be the least affected as it focuses on specialty gloves which fetch better margins. Moreover, with its disciplined cost structure and continuous efforts to streamline operations, the group's profitability is expected to be less impacted by any potential orders slowdown.We like KOSSAN for: (i) trading at 12x PER-ex cash (RM1.6bn or RM0.62/share net cash and net chase per share), (ii) trading below book value despite most profitable listed medical grade glove in Bursa Malaysia, (iii) its solid management, and (iv) focuses on specialty gloves which fetch better margins.

Over the longer term, players will focus on operational efficiencies via enhanced automation and innovated product differentiation to mitigate intense competition and higher operating costs. Overall, more disciplined and efficient players are embarking to further automating their plants and reduced reliance on foreign workers. Case in point, **HARTA (OP; TP: RM3.10)** has undertaken operational efficiencies and continue advancing automation and digitalisation initiatives across its operations. It expects the efforts to bear fruits i.e. improving production yield in CY26. Specifically, it is undergoing further automation which incorporates artificial intelligence (AIs) in all its lines capable of detecting glove defects via digital imaging with a 0.3% reject rate and a stripping machine which is 5x faster. Thereafter, the initiative will result in further reduction in manual manpower from an estimated 7,500 presently to 7,000 workers.

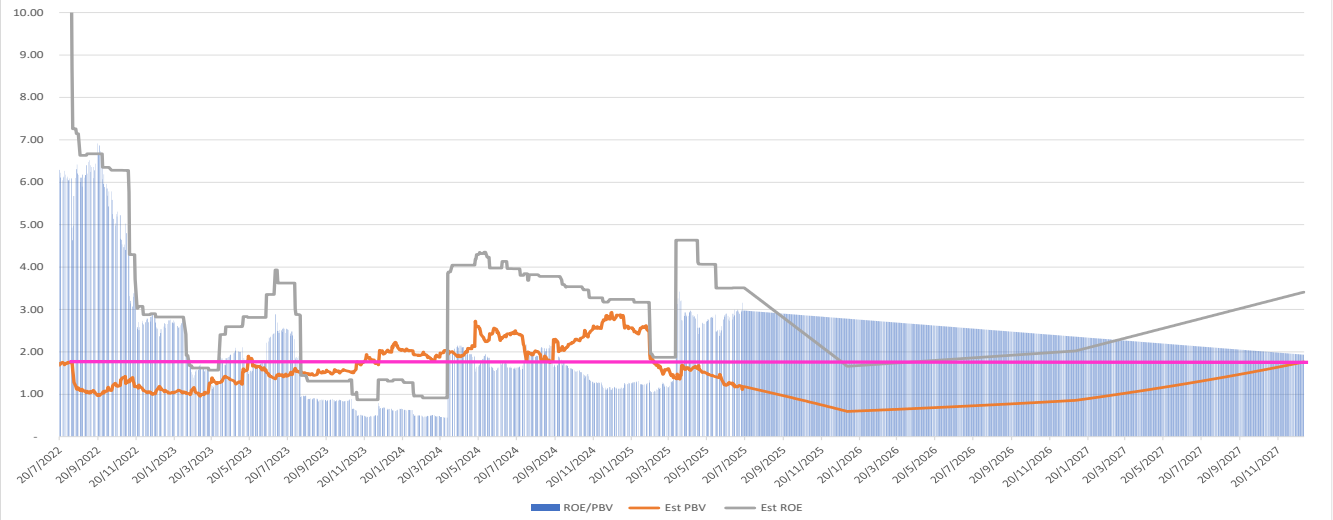
Eyeing a turnaround in valuations. Based on our analysis using post-COVID's past 3-years average ROE/PBV ratio and our FY26F ROE forecasts of 4.5%, 5.0% and 5.5%for KOSSAN, HARTA and TOPGLOV, our findings suggest they should revert to trading at FY26F PBV of 1.8x, 1.8x and 1.3x, respectively (post-COVID past 3-years average).We opine that the stock is now likely trading at trough valuations, driven by concerns over temporary sluggish demand due to front-loading effects in the US and intense competition from China. As such we fine tune our TPs for:(i) HARTA from RM3.10 to RM2.30 based on 1.8x FY26F PBV (previously 2.5x),(ii) TOPGLOV from RM0.93 to RM0.75 based on 1.3x FY26 PBV (previously 1.6x); and (iii)for Kossan, we keep our TP since we have been using 1.8x PBV.

HARTA : ROE, PBV



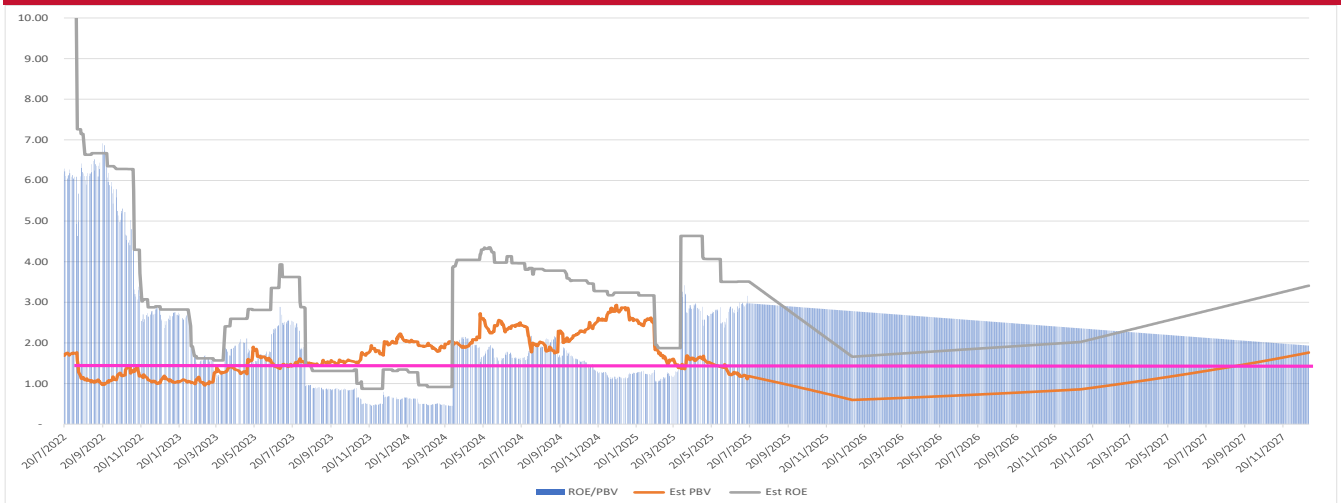
Source: Bloomberg, Kenanga

Kossan : ROE, PBV



Source: Bloomberg, Kenanga

TOP GLOVE : ROE, PBV



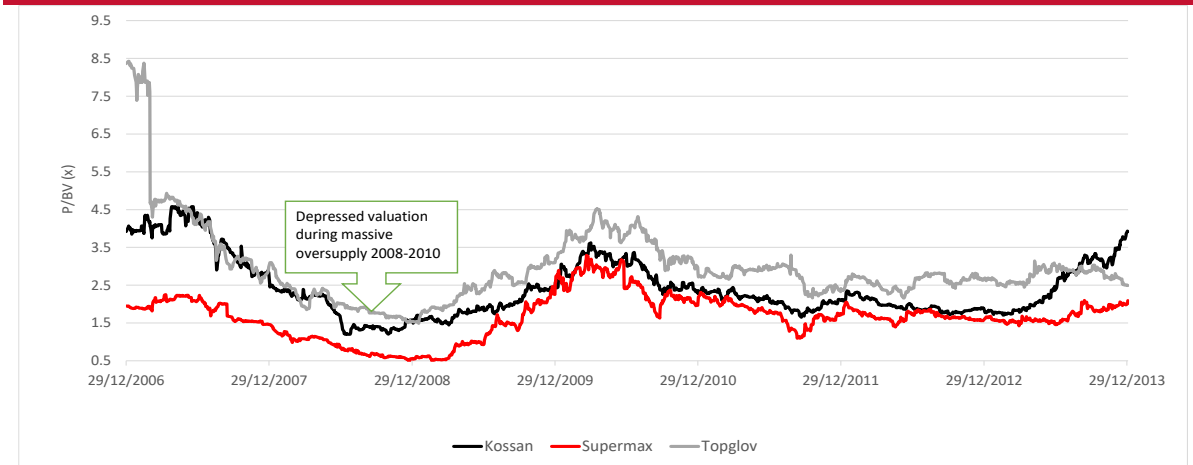
Source: Bloomberg, Kenanga

Valuations. The glove sector under our coverage is currently trading at 2.0 SD below its historical 1-year forward average. While earnings may remain weak in the near term, structural demand and supply rationalisation offer long-term upside.Webelieve the current low P/Book valuations are unwarranted low because glove players are profitable compared to the previous down-cycle low where players were in loss-making position. HART and KOSSAN are currently trading at 1.3x and 1.0x, respectively, versus sector's recovery cycle phase of between 2x and 3x, i.e. the levels seen emerging from an up-cycle in 2012 and at a discount that we believe is valid due to the emergence of Chinese glove makers.

Exhibit 1- Deep Values Emerging - P/BV Valuation - Trading at Close to Downcycle Between 0.8x and 1.3x

Source: Kenanga Research, Bloomberg

Exhibit 2 - P/BV Valuation - Recovery Cycle Trades at Between 2x and 4x



Source: Kenanga Research, Bloomberg

Key risks to our recommendation include: (i) certain Chinese glove giants ramping up predatory pricing practices (i.e. selling below cost over an extended period of time to eliminate competitors), (ii) weaker-than-expected growth in demand for gloves due to slower-than-anticipated hygiene standards implementation and health awareness globally, and (iii) unfavourable changes in tariffs to Malaysian glove makers.

Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside	Market Cap (RM m)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE	Net. Div. (sen)	Net Div Yld
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
HARTALEGA HOLDINGS BHD	OP	1.22	2.30	87.7%	4,164	Y	03/2026	2.7	6.4	24.8%	133.4%	44.6	19.1	1.0	2.1%	2.0	1.6%
KOSSAN RUBBER INDUSTRIES	OP	1.21	2.70	123.1%	3,059	Y	12/2025	6.4	6.4	36.1%	0.8%	19.0	18.8	0.8	4.4%	4.0	3.3%
SUPERMAX CORP BHD	MP	0.480	0.490	2.1%	1,467	N	06/2026	(1.4)	0.9	-128.5%	-33.5%	N.A.	51.5	0.4	-1.1%	0.0	0.0%
TOP GLOVE CORP BHD	OP	0.595	0.75	26.1%	4,771	Y	08/2025	0.9	1.6	-52.9%	80.0%	65.4	36.3	1.1	1.6%	0.5	0.8%

Source: Kenanga Research

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Healthcare

A Healthy Diagnosis

OVERWEIGHT
↔

By Raymond Choo Ping Khoon I pkchoo@kenanga.com.my

We reiterate our OVERWEIGHT call for the healthcare sector, underpinned by rising affluence and an aging population. We expect both domestic and international patient throughput to continue growing while revenue intensity improves, driven by a high-yield case-mix with more acute cases and ramp-up of new beds. We believe the implementation of diagnosis-related group (DRG) system could put pressure on margins for private hospitals but the near-term impact could be minimal as the initial roll-out is expected to target lower-value treatments or minor illnesses. Taking a view of longer term growth prospects of the healthcare sector, which will continue to be underpinned by an ageing population, rising affluence and rising cases of chronic diseases globally, our top pick for the sector is IHH (OP; TP: RM8.11) and DPHARMA (OP; TP: RM1.72).

1. Private Hospitals

Overall, the impending listing of Sunway Healthcare Group (SHG), expected to be listed somewhere in CY26, could pave the way for a valuation re-rating in private healthcare. SHG continues to scale rapidly, with the opening of SMC Damansara in December 2024 and SMC Ipoh in April 2025. It is also increasing its hospital portfolio to five from three. Looking ahead, by 2032, SHG is expected to more than double its bed capacity from 1,600 to 3,400.

Based on what is implied by the market price for Sunway Berhad in the SoP for its healthcare segment in our valuation, market on average is expecting an 20x EV/EBITDA compared to 1-year forward valuation for both IHH (14x) and KPJ (12x). We believe the SHG listing could buoy interest in incumbents IHH and KPJ, which are respectively trading at lower EV/EBITDA of 14x and 12x. In this regard, every 1x increase in EV/EBITDA multiple for IHH (for both its Malaysia and Singapore business pegged at 15x) and KPJ (from our applied 11.5x) will lift TP, respectively, by 5% and 8%. If past history and using IHH Healthcare as a guide, we are wary of sustained high EV/EBITDA multiple over a long period. Note that IHH in its first 5 years of listing was trading at EV/EBITDA multiple of 25x-27x and thereafter normalised to between 12x-16x (IHH operates in 4 key markets with commanding position and wider earnings base) (see Exhibit 1).

Health Minister Dr Dzul says the DRG payment system will be introduced for private hospitals first next year via a new government health insurance product. DRG for the private sector will differ slightly from a national DRG system planned for 2027 launch. The government will begin implementing the DRG by introducing a basic Medical and Health Takaful Insurance (MHIT) in 2026. "The basic MHIT will serve as a standardised platform to ensure the continuity and effectiveness of the DRG-based payment system. Recall, in 2024, private healthcare cost increases saw insurance premiums rising by up to 70%, prompting Bank Negara Malaysia to cap increases at 10% for three years while it sought a more sustainable solution to medical inflation. Also noted that DRG forms part of the MOH's shift towards value-based healthcare, where providers are reimbursed based on outcomes and cost-effectiveness rather than volume of services.

Due to the complexity in gathering data to formulate a DRG framework, we believe the early stages of introduction in DRG is expected to be limited to certain categories of straight forward and predictable surgeries, for example, appendicectomy and ACL reconstruction. In fact, in South Korea, a voluntary DRG payment system was officially introduced in 2002 for seven disease groups. The implementation of the DRG system could put pressure on margins for private hospitals but the near-term impact could be minimal as the initial roll-out is expected to target lower-value treatments or minor illnesses. Overall, we are still positive on the private healthcare sector as longer-term growth prospects of the healthcare sector will continue to be underpinned by an ageing population, rising affluence and cases of chronic diseases globally.

In fact, hospitals under our coverage i.e. **IHH** and **KPJ** have been embarking on value based-healthcare which is similar to the DRG system. As an indication, average length of stay in the hospital for **IHH** and **KPJ** is three days. Generally, value-based healthcare is a healthcare delivery model where providers are paid based on patient health outcomes and not the volume of services provided. Based on early data, these advanced surgeries have led to a shorter length of stay and reduction in rate of blood transfusion. IHH in 2QFY25 saw a structural shift from the healthcare model with increasing focus on day-care and skewed towards more surgical cases, while moving away from medical cases. For example, gallbladder surgery and angiogram can be done via day-care instead of inpatient. The shift was largely due to the fact that many of the procedures conducted as an inpatient can be done via day-care. Generally, day-care treatment refers to a patient's pre-planned medical procedures, both surgical and non-surgical, that require a short hospital stay, typically less than 24 hours, with admission, treatment, and discharge occurring on the same day. We believe margins are not expected to be crimped because day-care requires less operating costs. Typically, inpatient wards need three shifts of nurses and 24 hours operations. However, day-care requires 1 shift of nurses, and the wards are not operating overnight.

Urgent need to address national healthcare financing to provide universal coverage. The objective is to find an equitable health system and is a sustainable healthcare financing/funding model. In our view, a revamped healthcare insurance system could lead to better overall healthcare services for Malaysians, lower out-of-pocket spending, reduced waiting times and access to more modern medicines and technology. Moreover, it would also allow for new treatments, drugs, and therapies not available at

government hospitals to be made available for patients. Presently, Malaysia has a dual healthcare funding system i.e. private and public. The private healthcare system is paid for by consumers via "out of pocket" and private healthcare insurance (personal, corporate or employers). On the other hand, the public healthcare budget is borne by the government (i.e. tax payers) via mainly the Ministry of Health and to some extent the Ministry of Higher Education (university hospitals) and Ministry of Defence. Briefly, it is a multi-payor, multi-provider system with payors including federal and state agencies, local authorities, SOCSO and the EPF. Meanwhile, a new source of financing is being considered for the National Healthcare Insurance (NHI) i.e. contributions from the self-employed and employed. According to an academic study carried out among patients visiting public hospitals in Melaka, 74.5% were willing to pay for the NHI. The majority (51.3%) of the respondents were willing to pay RM15 or more for the NHI scheme. We opined that the system could entail a hybrid version i.e. similar to the Australian system of a single-payer, multiple-provider arrangement, where public and private hospitals would provide equal facilities and functions to a patient (vs. current: multi-payer multi-provider system). Basically, it would mean that everyone has to contribute. Theoretically, all working citizens are obligated to set aside a portion of their income into a fund which they can draw upon to pay their own medical bills when the need arises

Looking into 1H2025, **IHH** plans to add >4,000 beds (+30%) over the next five years across Malaysia, India, Türkiye and Europe. We expect IHH's earnings momentum to accelerate, underpinned by revenue intensity and rising demand in FY25. This would be supported by higher yield services both in Singapore and Malaysia, return of medical tourists in Türkiye, and improvement in cost efficiency in India. We believe IHH has greater exposure to medical tourism by virtue of its vast overseas markets. Its earnings are less susceptible to DRG-related regulatory concerns due to its exposure to earnings in various overseas markets it operates in. Note that Malaysia accounts for 20% and 30% of the group's topline and bottomline, respectively, based on FY24 numbers.

Singapore – We expect its Singapore operation to gain momentum for the remaining of CY25. In fact, Mount Elizabeth saw phased re-openings in July and early Aug 2025 and expect beds to ramp up from 110 beds to 220 beds. The group is optimistic for Mount Elizabeth Orchard Hospital to progressively reopen beds and expects better utilisation in 1QFY26. Despite the renovation works at Mount Elizabeth Orchard, 2QFY25 EBITDA margin remained solid at 28% (1QFY25: 28%) due to various measures including reduced length of hospital stay and improved patient outcome, reflecting its strategy which led to higher revenue per inpatient (+9%) but 2 ppts lower in 1HFY25 at 28% vs 30% in 1HFY24.

Malaysia – Going forward, we expect day-care to gain further traction which saw a structural shift in healthcare model. Specifically, IHH in 2QFY25 saw a structural shift from the healthcare model with it increasing focus on day-care and skewing towards more surgical cases, while moving away from medical cases. We believe margins are not expected to be crimped because day-care requires less operating costs. Typically, inpatient wards need three shifts of nurses and 24 hours operations. However, day-care requires 1 shift of nurses, and the wards are not operating overnight. Specifically, net day-care revenue and volume rose 20% and 80%, respectively. Despite pressure from payors and IHH giving discounts, revenue intensity and EBITDA margin remain steady.

We also like **KPJ (MP; TP: RM2.50)** for its pricing power as a private healthcare provider and its strong market position locally with the largest network of 29 private hospitals (vs. 18 of the next largest player IHH). However, the fundamentals have been priced-in after the recent run-up in its share price (YTD: +11%), as investors gravitate towards secular growth businesses amid a more risk-off environment. It is optimistic of a total 4,400 beds (+13% YoY) by end-CY25. Beyond CY25, it will add 800 beds bringing total beds to 5,200 over the next five years, largely via brownfield expansion which we have already factored into our forecasts. In terms of bottom-line profitability, we expect earnings to gain momentum moving into FY25 on better operational efficiencies from its cost optimisation effort and overhead absorption rate as a result of a gradual ramp-up in opening new beds (+13%).

KPJ guided for narrower losses in its hospitals under gestation, although the quantum of improvement appears smaller. It is optimistic for earnings to gain momentum moving into 2HFY25 supported by better operational efficiencies stemming from ongoing cost optimisation efforts. In terms of PER valuation, KPJ is trading at 36x and 31x on FY25F and FY26F earnings compared with Bumrumgrad Hospital and Bangkok Dusit at FY26F PER of 17x and 20x, respectively. Notably Bumrumgrad Hospital and Bangkok Dusit have consensus FY25F EBITDA margins of 38% and 24%, respectively, which is higher than KPJ's. However, the fundamentals have been priced-in after the recent run-up in its share price (YTD: +11%), as investors gravitate towards secular growth businesses amid a more risk-off environment. It is optimistic of a total 4,400 beds (+13% YoY) by end-CY25.

Beyond CY25, it will add 800 beds bringing total beds to 5,200 over the next five years, largely via brownfield expansion which we have already factored into our forecasts. In terms of bottom-line profitability, we expect earnings to gain momentum moving into FY25 on better operational efficiencies from its cost optimisation effort and overhead absorption rate as a result of a gradual ramp-up in opening new beds (+13%). However, the opening of KPJ Kuala Selangor (60-bed) mid-April CY25 is expected to incur start-up costs. Typically, new hospitals go through a gestation period of 3-5 years. With incremental revenue from higher patient throughput, Damansara Specialist Hospital 2 (DSH2), KPJ Perlis, KPJ Batu Pahat and KPJ Bandar Dato Onn have already turned EBITDA-positive in FY24 except for Miri which we expect to achieve the same in CY25. With a guided capex of RM300m-RM400m in FY25, the group is looking at M&A opportunities for future growth including looking at acquiring yield accretive hospitals or assets which are complimentary to its core business for future growth. Separately, in an effort to differentiate itself from other hospitals, KPJ has identified five areas of sub-specialities establishing them within its existing hospitals, in the discipline of heart and lung, neurology and stroke, oncology, orthopaedics as well as robotics for advanced surgery which is expected to raise revenue intensity due to its acute case of complex cases.

2. Health Supplements and OTC Drugs

DPHARMA (OP; TP: RM1.72) is poised to benefit from a full-year of contribution in 2025 from the Approved Product Purchase List (APPL) contracts vis-à-vis nine-month contribution in 2024, further boosting revenue and tilting the sales mix higher toward public sector sales. It is optimistic that public sector contribution would contribute positively for the remainder of FY25. We expect public sector sales to account for 50%−55% of top line in 2HFY25 to bring our FY25 to 55% compared to 47%−50%, historically. Based on our-back-of envelope calculation, unbilled Approved Product Purchase List (APPL) contracts from the government are estimated at RM330m. Typically, APPL contract will draw down its value proportionately over the course of contract period.

Independent market researcher The Statista Consumer Market Outlook projects the OTC pharmaceuticals market in Malaysia to grow at a CAGR of 6% to an estimated USD715m (RM3.2b) by 2027 as consumers take a more proactive stance towards their health and well-being (including taking health supplements regularly), especially in the aftermath of the Covid-19 pandemic.

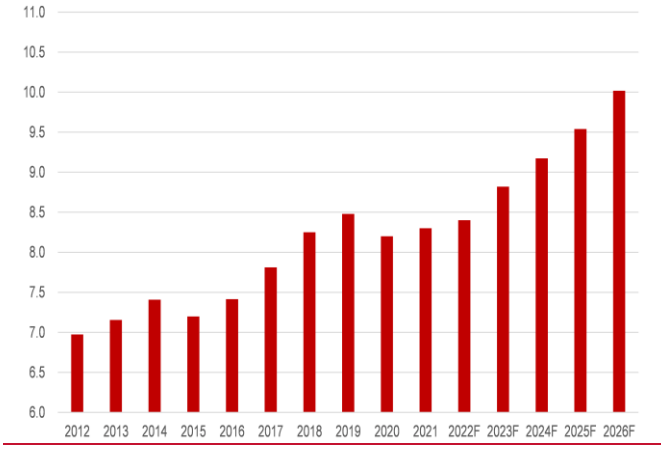
The trend augurs well for **KOTRA(OP; TP: RM4.90)** which manufactures and sells OTC supplements, and nutritional and pharmaceutical products under key flagship household brands such as *Appeton, Axcel* and *Vaxcel*. We also like **KOTRA** for: (i) its integrated business model encompassing the entire spectrum of the pharmaceutical value chain from R&D, product conceptualisation to manufacturing and sales, and (ii) the superior margins of its original brand manufacturing (OBM) business model (vs. low-margin contract manufacturing).

Meanwhile, we continue to like **NOVA(MP; TP: RM0.34)**for its: (i) integrated business model which encompasses the entire spectrum of pharmaceutical value chain from product conceptualization, R&D to manufacturing and sales, (ii) superior margins due to its original business manufacturing (OBM) business model, and (iii) earnings growth driven by capacity expansion, a widening distribution network and penetration into local public hospitals..

Exhibit 1- IHH Healthcare Berhad — EV/EBITDAMultiple Normalized From 26x to Between 12x -15x

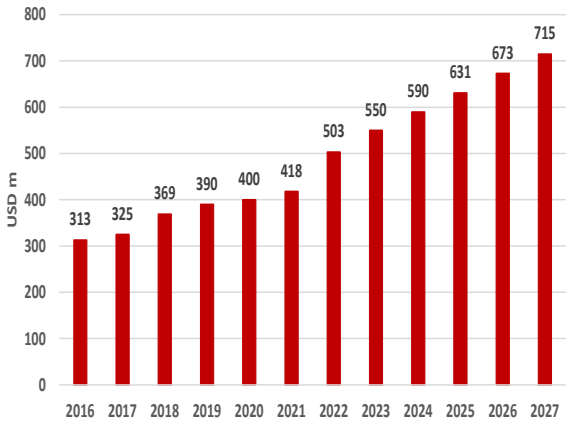
Source: Kenanga Research, Bloomberg

Global Healthcare Expenditure (USDt)



Source: Kenanga Research, WHO, various

OTC Pharmaceuticals Market in Malaysia



Source: Kenanga Research, various

3.

Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside	Market Cap (RM m)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net. Div. (sen)	Net Div Yld
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
DUOPHARMA BIOTECH BERHAD	OP	1.36	1.72	26.5%	1,308	Y	12/2025	9.9	11.5	51.8%	15.9%	13.8	11.9	1.7	12.8%	3.3	2.4%
IHH HEALTHCARE BHD	OP	7.36	8.11	10.2%	65,034	Y	12/2025	21.6	24.3	12.6%	12.2%	34.0	30.3	2.1	6.2%	10.0	1.4%
KOTRA INDUSTRIES BHD	OP	4.21	4.90	16.4%	624	Y	06/2025	32.5	33.4	13.2%	2.7%	13.0	12.6	1.9	15.8%	25.5	6.1%
KPJ HEALTHCARE BHD	MP	2.53	2.50	-1.2%	11,042	Y	12/2025	7.6	8.8	8.5%	15.7%	33.2	28.7	4.2	13.0%	4.2	1.7%
NOVA WELLNESS GROUP BHD	MP	0.350	0.340	-2.9%	112	Y	06/2025	2.6	2.8	6.5%	7.3%	13.6	12.6	1.0	7.3%	1.6	4.6%
PHARMANIAGA	MP	0.270	0.150	-44.4%	1,770	Y	12/2025	0.7	1.0	25.2%	35.9%	36.4	26.7	(14.5)	-33.2%	0.0	0.0%

Source: Company, Bloomberg, Kenanga Research

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Media

Waiting for the Next Catalyst

UNDERWEIGHT

↔

By Kylie Chan Sze Zan I kyliechan@kenanga.com.my

Malaysia's media sector continues to face structural headwinds as adex shifts toward digital-first platforms. Social media, KOLs, messaging apps, streaming services, search engines, and live-stream commerce offer advertisers advanced targeting tools through AI-driven programmatic advertising. These enable real-time bidding, precise segmentation, and dynamic placement, supported by vast user data analysis that personalizes campaigns and enhances ROI. By contrast, legacy media (ie. television, print, and radio) remain constrained by coarse audience metrics, limited interactivity, and slower feedback loops.

Malaysian legacy media players remain largely under-represented in the digital advertising market, with exposure mostly limited to basic formats on their own platforms. While MEDIA shows better digital traction than peers, its digital segment only contributes 13% of YTD revenue. To tap into digital adex, ASTRO recently launched KULT - a digital venture that delivers data-driven campaigns across various digital platforms.

Against this backdrop, we maintain our FY25 adex forecast at RM4.72b (-14% YoY), a sharper decline than CY24's 10% YoY drop, reflecting weakness across free-to-air TV (-14%), digital media (-30%), newspapers (-5%), magazines (-8%), and cinema (-3%).

One potential bright spot is local intellectual property (IP) monetization as Malaysian players' cultural insight provides an edge over global rivals. However, scaling IP portfolios into consistent revenue streams remains a challenge, with execution critical to realizing long-term diversification and growth potential. Overall, we reiterate our UNDERWEIGHT stance, given digital disruption, legacy cost burdens, and the need for transformative strategies beyond incremental cost cuts. We do not have any top picks for the sector.

Advertisers drawn to the technological sophistication of modern media. In Malaysia, traditional media players are increasingly challenged by digital-first platforms such as social media, key opinion leaders (KOLs), messaging applications (e.g. WhatsApp Business, Telegram), music and video streaming services (e.g. Spotify, YouTube), search engine advertising (e.g. Google Ads), retail media networks (e.g. Shopee Ads, Lazada Ads), live stream sales on social media (e.g. Facebook Live, TikTok Live) and e-commerce platforms (e.g. Shopee Live, LazLive). These channels are highly attractive to advertisers as they harness technology to optimize campaign reach and effectiveness. Through AI-powered programmatic advertising, machine learning algorithms drive real-time bidding, precise audience segmentation, and dynamic ad placement across platforms. The ability to analyze massive troves of user data allows these platforms to personalize advertisements to individual browsing habits, purchase patterns, and content consumption behaviors. In contrast, legacy media (ie. television, print, and radio) do not provide such precision, as they operate with coarser audience metrics, limited interactivity, and slower feedback loops. This technological gap underscores why advertising budgets gravitate toward digital platforms that generate measurable campaign ROI and result in stronger customer engagement.

Legacy media trying to penetrate digital adex market. Traditional media companies remain largely underrepresented in the digital advertising, which now accounts for about 70% of total industry adex spend. Their exposure is generally limited to basic formats such as banner ads and embedded video spots on their own news portals, reflecting a slow adaptation to modern digital advertising models.Despite this industry-wide lag, **MEDIA** distinguishes itself with a relatively strong digital footprint. Itmoderately trails behind tech giants Google (13.5m) and Microsoft (13.2m) with 8m unique monthly visitors to its digital platforms. In addition, **MEDIA** commands a vast reach with 139m social media followers and a digital radio audience totalling 208m However, the monetization of **MEDIA**'s digital reach remains relatively modest as its digital operations contribute just 13% of its YTD revenue, indicating significant untapped potential.

On a brighter note, **ASTRO** is taking a more proactive approach through its newly launched digital marketing venture, KULT. This service enables brands to run customized campaigns across **ASTRO**'s content ecosystem spanning both proprietary and external digital channels (e.g. YouTube, TikTok, Meta). By leveraging first-party audience data and tapping into an ecosystem of influencers and creators, KULT offers advertisers a performance-driven model with clearmeasurable outcomes for advertisers.

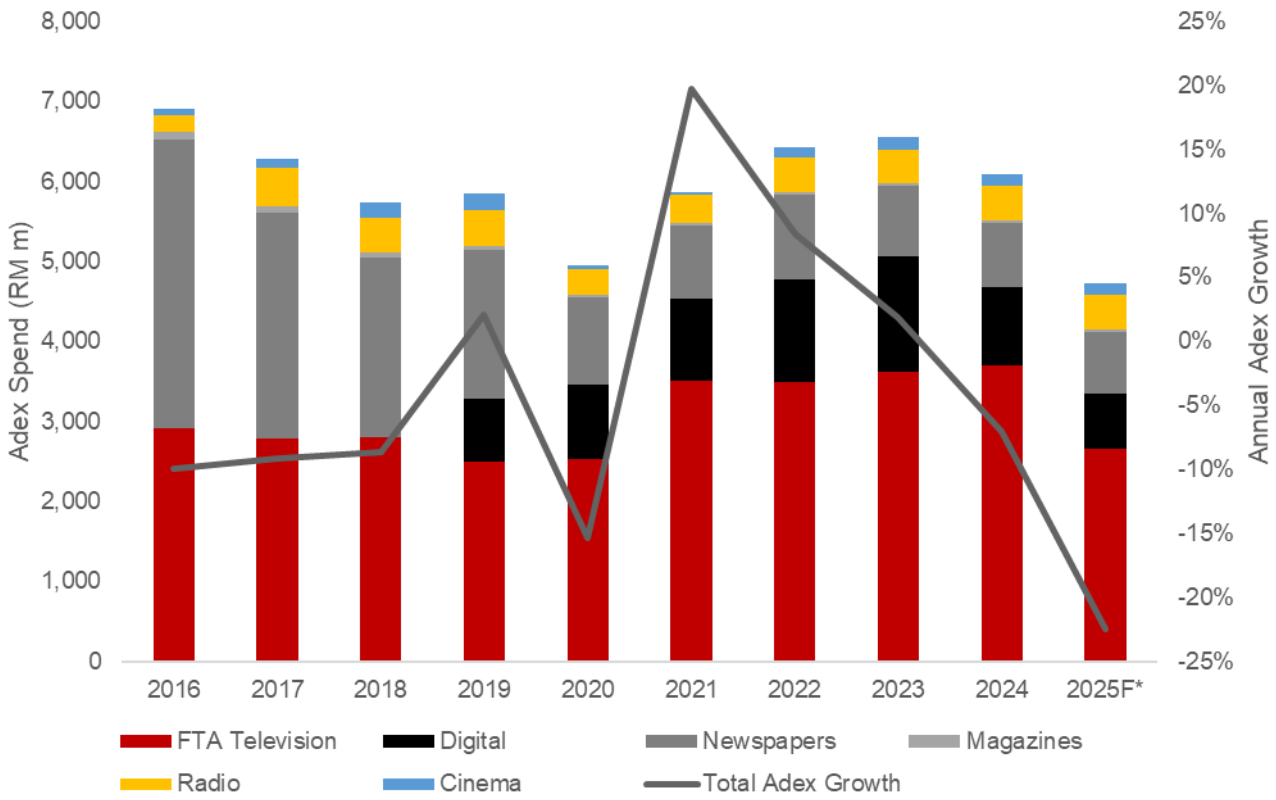
Persistent softness anticipated in FY25F adex. We reiterate our FY25 adex forecast of RM4.72b (-14% YoY), after adjusting for exclusion of RTM channel data. This impliesa steeper downturn in comparison to the 10% YoY decline in CY24. Our projection captures weakness across major categories, with free-to-air TV (-14% YoY), digital media (-30% YoY), newspapers (-5% YoY), magazines (-8% YoY), and cinema (-3% YoY) all expected to register contraction.

Local IP monetization could be the industry's future lifeline. On a more positive note, Malaysia's legacy media incumbents (i.e. **MEDIA** and **ASTRO**) have been increasing investments on homegrown content via their respective production and distribution arms, i.e. Primeworks Studios and Astro Shaw. These studios anchored some of the country's biggest recent box office hits, such as the *Polis Evo* franchise and *Ejen Ali*. These films were produced via a mix of in-house capabilities and collaborations with local creative partners. Their intimate grasp of Malaysia's cultural nuances, social dynamics, and vernacular gives them a distinct advantage over global competitors (eg. 20th Century Fox, Warner Bros.) and international OTT players (e.g., Netflix, HBO Max, Apple TV). By embedding local authenticity into stories and characters, they are able to craft engaging stories and characters that resonate strongly with domestic viewers.

Execution will determine whether IP generates sustainable income. The success of Astro Shaw in 2024 illustrates the potential of local content, where it captured a leading 71% share of the Malaysian box office, generating RM121m in gross box office revenue for FY25 (+10% YoY). Original content not only diversifies revenue streams but also builds IP assets that can be monetized across cinemas, streaming platforms, international syndication, licensing or brand collaborations. Looking ahead, a sizeable library of local IP could serve as a one of the key revenue anchors for media companies, especially as traditional adex contribution continues to erode. That said, the challenge lies in scaling these IP portfolios into consistentrevenue streams as it remains work in progress.

Sector stance remains Underweight amid enduring structural challenges. We reiterate our **UNDERWEIGHT** rating on the media sector, as profitability continues to be eroded by structural disadvantages, namely rising competition from digital-native players and the drag of legacy infrastructure such (e.g. broadcast towers, satellite transponder leases, printing facilities, and physical distribution networks). Although recent initiatives such as workforce optimization, AI-led efficiency improvements, and selective asset impairments have helped cushion losses, these measures are incremental fixes rather than long-term game-changing solutions. In our view, sustainable profitability will require more transformative shifts, including regional expansion, mergers and acquisitions, divestiture of non-core businesses, or a holistic pivot toward scalable IP ownership. In the absence of such radical steps, traditional media operators risk further marginalization as audiences and advertising spend steadily migrate to digital-first ecosystems. We do not have any stock picks for the sector.

Annual Adex



Source: Nielsen, Kenanga Research

Peer Comparison – Media

Name	Rating	Last Price as of 19 Sep (RM)	Target Price (RM)	Upside	Market Cap (RMm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE	Net Div. (sen)	Net Div. Yld.
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
MEDIA																	
ASTRO MALAYSIA HOLDINGS BHD	UP	0.135	0.125	-7.4%	705.5	N	01/2026	0.3	0.7	-76.7%	127.3%	45.8	20.1	0.6	3.1%	0.0	0.0%
MEDIA CHINESE INTERNATIONAL	UP	0.100	0.090	-10.0%	162.3	Y	03/2026	(2.3)	(2.1)	-44.0%	11.6%	N.A.	N.A.	0.3	-7.7%	0.0	0.0%
MEDIA PRIMA BHD	MP	0.355	0.370	4.2%	393.8	N	06/2026	1.9	2.6	-3.2%	32.7%	18.4	13.9	0.5	2.9%	1.5	4.2%
STAR MEDIA GROUP BHD	UP	0.390	0.330	-15.4%	282.7	Y	12/2025	(0.1)	0.9	-104.4%	1380.0%	N.A.	44.2	0.4	-0.1%	0.0	0.0%
SECTOR AGGREGATE					**1,544.2**					**-104.6%**	**-1154.5%**	**-467.9**	**44.4**	**0.5**	**-0.1%**		**1.1%**

Source: Bloomberg, Kenanga Research

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Oil & Gas

Diverging Fortunes

NEUTRAL

↔

By Lim Sin Kiat, CFA /limsk@kenanga.com.my

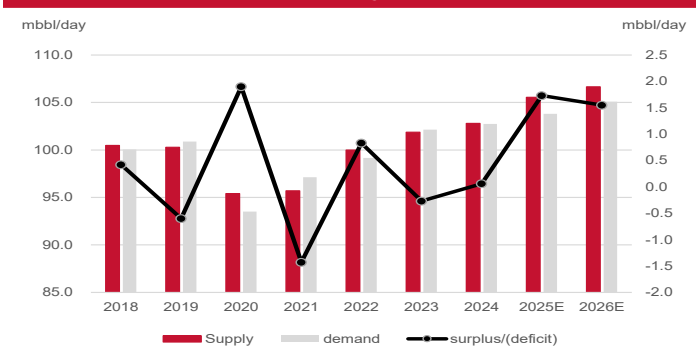
We maintain our NEUTRAL stance on the sector, remaining cautious on upstream services given the muted outlook for Brent crude prices. Our Brent crude forecasts are unchanged at USD64/bbl for 2025 and USD67/bbl for 2026, though downside risks persist for 2026 should supply surpluses continue. We reiterate our view that upstream service providers are experiencing a slowdown in activity, partly due to ongoing discussions between Petronas and PETROS on the gas aggregation deal. Additionally, subdued oil prices are contributing to delays in upstream capex globally. On a more constructive note, we remain hopeful for a potential recovery in the global petrochemical market. China has signaled early intentions to reorganize its petrochemical capacities, but further clarity is needed in the coming months to assess whether meaningful supply rationalisation will materialize. Beyond China, other countries are also showing signs of capacity cuts, particularly at aging facilities, driven by persistently weak product spreads. We believe the petrochemical market could be poised for a recovery, at least a short-term upcycle, in 2026 as supply dynamics eventually respond to market forces. In line with this view, we maintain our barbell-like sector strategy with our top pick PCHEM (OP; TP: RM5.30) to position for a potential up-cycle in petrochemical prices for alpha. This is balanced with a more defensive pick DIALOG (OP; TP: RM2.24), which operates in the midstream segment. The product storage business typically performs well during crude production ramp-up cycles. Overall, we maintain our NEUTRAL stance on the sector.

1. Upstream

Brent crude price targets are currently maintained. We maintain our Brent average targets of USD64/bbl and USD67/bbl for 2025 and 2026. The major theme to look out for in the coming months are larger inventory builds stemming from OPEC+ members ramping up production. This is in line with OPEC+ announcement (back on 7th September 2025) of its plans to raise production by 137,000 bbls per day in the month of October 2025 (0.1% of expected 2025 total crude production). According to EIA, despite the production hikes by OPEC+ the Brent prices were still rather resilient as it has yet to see a significant increase in observable oil inventories (of which the disconnect is likely the result of some of the excess production ending up in observable strategic reserves particularly China). However, EIA has started to observe more OECD inventories moving above their seasonal average range from 2018-2024 on a days-of-supply basis.

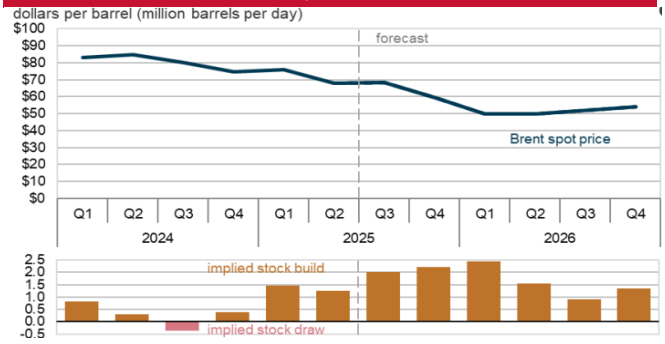
Base assumptions. Despite the recent month's stronger-than-expected summer demand for crude which resulted in less-than-expected inventory builds, we expect the crude market to be in higher surpluses in 2025 and 2026 as OPEC+ ramps up their production. The supply side of the story could change if the ongoing tensions and negotiations related to the Russia-Ukraine conflict escalates. In terms of demand, we concur with IEA that the majority of the demand drive would be from non-OECD counrtries (mainly Asia) and we believe that the assumption remains intact unless further tarriff changes affects the global demand picture further in the coming months. All in all, we still believe that the crude oil prices are expected to remain in a slight downtrend in the near term. Nevertheless, we are aware of the increased frequency of global geopolitical incidencesthat will be monitoredshouldthey start to materially affect global oil market fundamentals.

Exhibit 1: EIA Demand & Supply Forecast



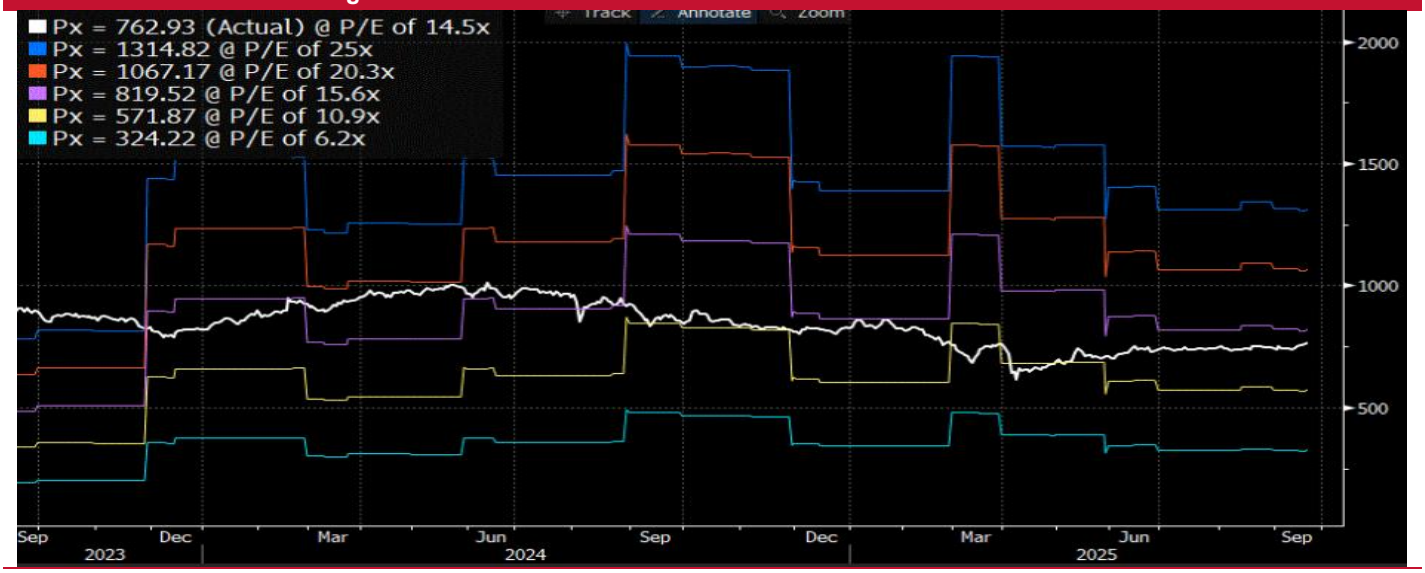
Source: EIA

Exhibit 2: Crude Inventory Movements



Source: EIA

Exhibit 3: KLENG PER trading close to the mean



Source: Company

KLENG implied PER fairly valued at best. Despite the overall drop in the KL Energy Index (KLENG), it is still trading close to its 2-year average at 15.6x (historical LTM PER). Do note that in the index the earnings in the last 12 months are still considered peak-cycle earnings as it still includes FY24 earnings, which were the all-time high earnings recorded by a lot of the upstream service providers. Hence, we believe that there are still some downside risks to KLENG's valuations in the event of more potential dissapointment in earnings in the coming quarters, albeit we do not expect share price corrections to be as severe as last year. On a brighter note, KLENG is trading at 0.9x PBV (historical), which is already at -1SD of 2-year average which in our view would provide some dampener in any near-term negative earnings catalysts. Overall, we advocate for more patience in this sub-sector and would recommend investors to buy the dip more aggresively in the coming quarters if clearer pivot points are observed.

2. Downstream

Exhibit 4: China Average PP Price Spreads of Naphtha

Source: ICIS

China petrochemical capacity cut. China appears to be undertaking a broad overhaul of its petrochemical sector, targeting facilities over 20 years old for shutdown or upgrades to address chronic overcapacity. Since the initial Bloomberg report in August 2025, the government has yet to release further details, but the general direction is to phase out smaller, dated plants or upgrade them, while redirecting investment toward advanced materials. Beyond the refining sectorwhich has long suffered from oversupply, ethylene cracker capacity may also be targeted, potentially impacting companies like PCHEM. According to Bloomberg, facilities over 20 years old account for around 40% of China's total petrochemical capacity, and these plants are expected to be either retrofitted to improve yields or repurposed to produce specialty and fine chemicals. In the longer run (beyond 2026), we believe that the global chemical market would still likely to stay structurally oversupplied as China still looks to stay self sufficient in the longer run.

Ethylene price spike will eventually result in higher polymer prices. China's capacity rationalisation has so far excluded polymers, which are derived from ethylene, as polymers are still considered critical for key strategic industries such as AI and robotics, semiconductors, biomedical, batteries, and renewable energy. If ethylene prices spike following China's capacity cuts, this would further worsen the economics for naphtha-based producers, whose margins are already weak or occasionally negative. This is more favorable to PCHEM as a gas-based producer (except for its PPC plant) due to the inherently lower cost base of gas as feedstock compared to naphtha). According to ICIS, China's polypropylene-naphtha spread fell to a record low of USD191/MT in 2024, compared to a five-year average of over USD500/MT. This margin compression will indirectly pressure naphtha-based petrochemical plants globally (including in China), potentially forcing shutdowns or retrofits, particularly among older and less cost-efficient facilities. In our view, this could eventually drive polymer prices higher, although the timing and magnitude of any potential up-cycle remain uncertain for now.

Exhibit 5: LLDPE (Polyethylene Prices Remain Tepid)

Source: Company

Polyethylene prices not reacting yet, plan details by China is key. Despite improved prospects for capacity moderation by China, polyethylene prices have not reacted positively yet, as the market remains largely in the same expanding supply surplus situation. We believe product prices will only respond once firmer announcements are made by China's Ministry of Industry and Information Technology. In our view, the framework to retrofit or recalibrate its downstream capacities may be introduced during the October 2025 Fourth Plenary Session of the Communist Party's Central Committee, which will outline China's next five-year plan (2026–2030), followed by a more formal announcement during the 'Two Sessions' in March 2026, where the National People's Congress approves the plan. In the meantime, other regions such as Korea and Europe are already indicating capacity cuts (seven steam crackers have been shut down or scheduled for closure by 2027, removing 4.5m MT/year, or 2% of global capacity). While the cuts are still small relative to total capacity, if this trend spreads more broadly, we believe it could eventually lead to at least a short-term upcycle in polymer prices, potentially starting in 2026.

3. Conclusion

Still leaning towards downstream and midstream. We prefer to still stick to the strategy of staying cautious in the upstream service provider sub-segment given the potential for more earnings dissapointments. Despite still tepid petrochemical product prices, we believe that the sub-segment has formed a bottom and is on the path to recovery as the global fundamentals gradually improve. While structurally the sector will be in surplus, we believe 2026 could turn out to be an upcycle for the petrochemical cycle if the global supply rationalises. Mid-stream also remains as a safe haven for investors during the current uncertainty due to resilient demand for tank storage capacities amid OPEC+ ramp up in crude production.

Maintain NEUTRAL. Given the confluence of weak crude oil price outlook coupled with still unresolved PETROS and Petronas uncertainty, we believe that the rest of 2025 will be tepid for upstream service providers while the petrochemical market is still oscillilating around the current market bottom. We believe that our top pick **PCHEM (OP; TP: RM5.30)** remains the more favourable play under current market conditions due to its defensive earnings nature. After a couple of disappointing quarters, we believe that the group will gradually recover from its EPCC cost over-runs and restoreresilience to its earnings base, and leading eventually to gradual recovery.

We also made a couple of changes in stock calls:

DAYANG (MP; TP: RM1.44) ↑. We upgraded the stock to **MARKET PERFORM** (from **UNDERPERFORM**) following a 17% correction in its share price since 25 June, which has improved its risk-reward profile. At current levels, we see better value emerging, particularly given its decent dividend yield of 5%, which could help cushion the impact of a more subdued earnings outlook for FY25. At a FY26F PER of 10xbased on our forecasts, which are below consensus, we believe the stock's valuation is becoming increasingly attractive. While earnings headwinds remain, the combination of dividend yield support and more compelling valuation underpins our revised call.

KEYFIELD (MP; TP: RM1.57) ↓ Since mid-September 2025, KEYFIELD's share price has risen 18% partly due to share buy backs by the company, making its risk-reward profile less favourable compared to late August. In our view, upside to FY26F earnings remains limited at this juncture, as upstream activity could still be muted, particularly if Petros and Petronas have yet to reach an agreement on the details of the gas aggregation deal in Sarawak. Given the less compelling valuation and lack of near-term catalysts, we **downgrade the stock to MARKET PERFORM** (from OUTPERFORM).

Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside	Market Cap (RM m)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE	Net. Div. (sen)	Net Div Yld
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
BUMI ARMADA BHD	OP	0.375	0.450	20.0%	2,223.0	Y	12/2025	6.1	5.4	-45.7%	-10.9%	6.2	6.9	0.5	7.6%	0.0	0.0%
DAYANG ENTERPRISE HLDGS BHD	MP	1.63	1.44	-11.7%	1,887.2	Y	12/2025	12.1	15.9	-48.7%	31.9%	13.5	10.2	1.0	7.4%	8.0	4.9%
DIALOG GROUP BHD	OP	1.90	2.24	17.9%	10,721.1	Y	06/2026	10.4	11.4	31.4%	9.7%	18.2	16.6	1.7	9.9%	5.0	2.6%
KEYFIELD INTERNATIONAL	MP	1.56	1.57	0.6%	1,256.7	Y	12/2025	14.0	17.5	-49.6%	24.3%	11.1	8.9	1.7	15.6%	6.0	3.8%
MISC BHD	OP	7.29	8.17	12.1%	32,540.7	Y	12/2025	54.1	46.7	11.1%	-13.8%	13.5	15.6	0.8	6.4%	36.0	4.9%
PETRONAS CHEMICALS GROUP	OP	4.41	5.30	20.2%	35,280.0	Y	12/2025	4.0	21.1	-73.1%	434.2%	111.5	20.9	0.9	0.8%	5.0	1.1%
PETRONAS DAGANGAN BHD	MP	22.28	21.20	-4.8%	22,134.2	Y	12/2025	110.4	113.0	-0.8%	2.3%	20.2	19.7	3.6	18.0%	88.0	3.9%
VELESTO ENERGY BHD	MP	0.250	0.180	-28.0%	2,053.9	Y	12/2025	1.7	1.8	-32.4%	5.3%	14.6	13.9	0.8	5.3%	1.0	4.0%
WASCO BHD	OP	1.02	1.17	14.7%	789.8	Y	12/2025	1.5	1.7	-41.5%	9.4%	66.9	61.1	6.4	10.1%	5.0	4.9%
SECTOR AGGREGATE					**118,499.5**					**-16.1%**	**22.8%**	**19.8**	**16.1**	**1.8**	**8.7%**		**2.7%**

Source: Kenanga Research

Plantation

Defensive But Missing Upside Catalyst

NEUTRAL

↔

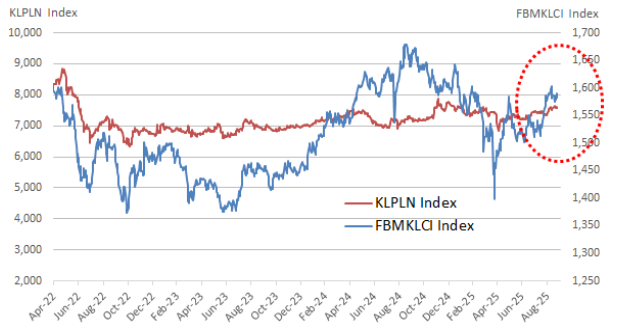
By Khoo Teng Chuan I khootc@kenanga.com.my

YTD, palm oil prices have held better than expected which led our upgrade in CY25F CPO price from RM4,200 to RM4,300 per MT. Peering into CY26, supply prospects should improve albeit still tight; hence, CPO price should ease YoY, staying firm at around RM4,000. Production cost is expected to creep up in CY26 but with margins remaining manageable on elevated PK prices and better yields. Downstream recovery is overdue but no uptick seen so far. Instead, rising non-plantation profit looks likely beyond CY25.

Stay NEUTRAL as healthy profits, strong balance sheet and undemanding valuations (1.1x PBV, 14x-15x PERs) are mitigated by limited growth with no strong upside catalyst. Based purely on valuation, smaller players offer better value but our picks are skewed toward larger more liquid players with potentially non-plantation growth such as:(i) KLK (OP; TP: RM24.00) for strong upstream, stronger property earnings ahead, and easing gearing, (ii) PPB (OP; TP: RM12.50) as we halved our 30% discount due to Wilmar International Ltd (WIL)'s legal case in Indonesia as official closure of the case is still pending formal judgement, and (iii) HSPLANT(OP; TP: RM2.40) on attractive dividend yields (>5%) and RM0.6b net cash (74 sen per share).

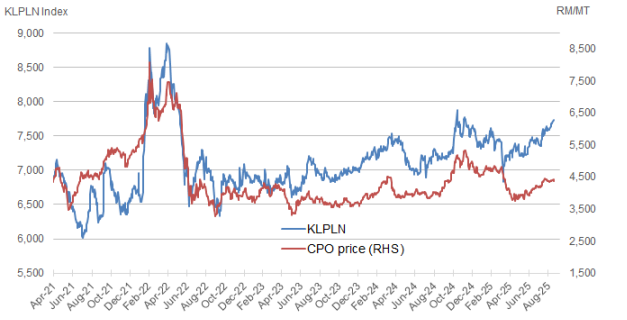
KL Plantation index stays defensive, but no near-term catalyst visible. Underpinning the sector's defensiveness are: (i) 70% or more of edible oil ends up as food, hence demand can be resilient even when economic activities are slow, (ii) edible products prices (i.e. supply and demand) influence earnings more often than broad business cycles thus offering some form of diversification, (iii) land-rich, and (iv) 32% net gearing is manageable and concentred among larger integrated players as many smaller pure upstream planters have net cash.

YTD, Planters Held Steadier Than Broader Index



Source: Bloomberg, Kenanga Research

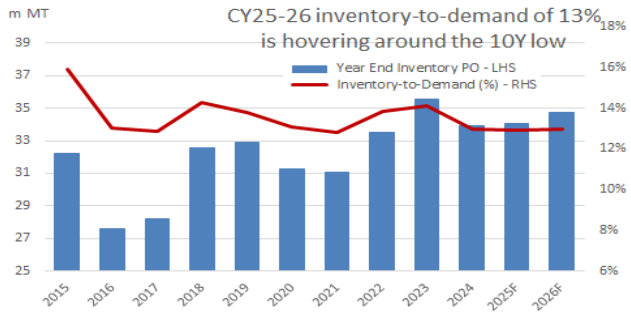
Planters' Index Buoyed By Good CPO Prices



Source: Bloomberg,Kenanga Research

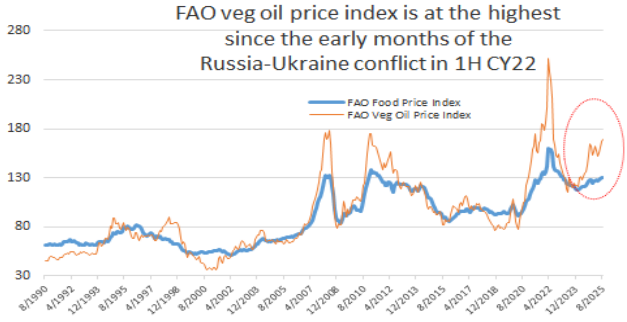
Firm CPO prices expected over CY26-27. CPO prices were strong during 1QCY25, trading above soya bean oil prices, as Indonesia's yield was just recovering from a poor CY24. CPO prices had since softened but remained more elevated than earlier expected on supply staying tight despite YoY improvement. As such, we now expect CY25 CPO prices to average closer to RM4,300 per MT in CY25 before easing to average around RM4,000 over CY26-27.Global edible oil supply is expected to improve in CY26 but by only 2%-3% YoY. Importantly, this incremental supply should be easily absorbed in CY26 as we believe "real" latent demand uptrend is still 3%-4% YoY. As such, inventory levels should not improve much in CY26 and potentially into CY27, hence, the basis for our expectation for firm CPO prices in CY26-27.

Tight Inventory ProspectsFor CY25& CY26



Source: FAO, Oilworld, Kenanga Research

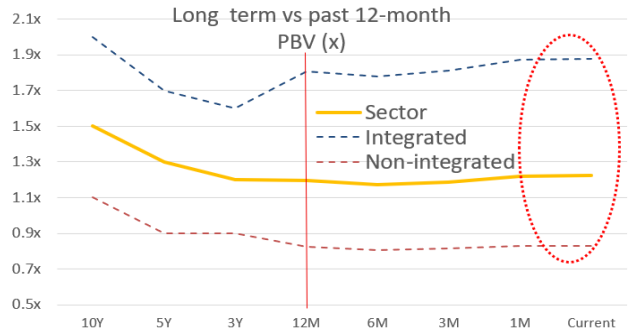
Edible Oil Prices Should Stay Firm



Source:FAO,Kenanga Research

Divergence in plantationratings may persist. On the whole, sector PBV and PER multiples for the past 1 to 3 years have dipped below that for the last 5 to 10 years, due to a combination of slower new oil palm planting, tighter margins post-2018. However, sector valuation could be bottoming with ratings starting to trend up about six months ago, led by larger integrated players. Broadly, integrated planters have seen their PBVs and PERs risen by 5%-6% in the past six months while non-integrated PBVs and PERs inched up 2%-3%. We suspect larger planters may have attracted greater inflow as the broader market considered sectors such as plantation which has been lagging somewhat.

Sector PBV Appears To Have Bottomed Out



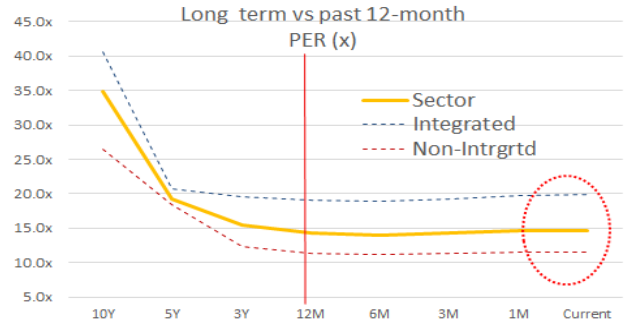
Source: Bloomberg, Kenanga Research

PBVs Have Been Inching UpFor 6 Months Now

PBV (x)	Kenanga			Bursa	Bursa
	Integrated	Non-Intgrtd	Sector	Plnt Sctr	KLCI
10Y	2.00x	1.10x	1.50x	1.50x	1.60x
5Y	1.70x	0.90x	1.30x	1.40x	1.50x
3Y	1.60x	0.90x	1.20x	1.37x	1.40x
12M	1.81x	0.83x	1.19x	1.40x	1.44x
6M	1.78x	0.81x	1.17x	1.40x	1.43x
3M	1.81x	0.82x	1.19x	1.40x	1.43x
1M	1.87x	0.83x	1.22x	1.40x	1.44x
Current	**1.88x**	**0.83x**	**1.22x**	**1.43x**	**1.50x**

Source: Bloomberg,Kenanga Research

Sector PER Looks To Be Levelling Out As Well



Source: Bloomberg, Kenanga Research

Likewise, PERs Have Also Been Nudging Up

PER (x)	Kenanga			Bursa	Bursa
	Integrated	Non-Intgrtd	Sector	Plnt Sctr	KLCI
10Y	40.6x	26.4x	34.8x	30.8x	17.0x
5Y	20.8x	18.4x	19.2x	17.5x	16.3x
3Y	19.5x	12.3x	15.5x	14.9x	15.1x
12M	19.1x	11.4x	14.3x	17.0x	14.6x
6M	18.8x	11.2x	14.0x	15.6x	14.4x
3M	19.2x	11.3x	14.2x	15.4x	14.6x
1M	19.8x	11.5x	14.6x	14.7x	14.8x
Current	**19.9x**	**11.5x**	**14.6x**	**14.9x**	**15.2x**

Source: Bloomberg,Kenanga Research

Nudging up TPs for integrated planters. Over the past ten years, larger integrated players traded between 1.6x to 2.0x PBV and 19x to 41x PER. Therefore, recent ratings upticks among integrated planters are still very much range-bound. Current PBV of 1.88x is still below the upper-end of historic PBV range of 2.0x while current 19.9x PER is at the low-end of the historical 19x to 41x PER band. We believe current higher ratings among the integrated planters can hold, on the back of several factors:

(a) Healthy CY26-27 upstream earnings, thanks to firm CPO prices even though margins should be tighter than CY25.
(b) Non-plantation contributions(e.g. from renewable energy or real estate)look set to gather momentum.
(c) Net gearing levelsare declining among integrated players (many non-integrated planters are in net cash).

We are thus raising our TPs for the larger integrated players except for IOI. Due IOI's superior ROEs, its TP of RM4.20 is already at the upper-end of the range of 2.0x PBV. The PBV adopted to arrive at the TPs of KLK and SDG are nudged up from 1.6x to 1.7x in both cases. As such, KLK's TP is raised from RM23.00 to RM24.00 while SDG's TP is revised up from RM4.80 to RM5.10.

Integrated Players	Old TP	New TP	Comments
IOI Corporation	4.20	4.20	Maintain higher 2x PBV due to superior ROEs
KL Kepong	23.00	24.00	Upgraded from 1.6x PBV to 1.7x
PPB Group	10.50	12.50	Maintain 16x PER but reduces 30% discount to 15% as valuation should normalise pending the formal closure of Wilmar's legal case in Indonesia
SD Guthrie	4.80	5.10	Upgraded from 1.6x to 1.7x PBV

PPB TP is also upgraded from RM10.50 to RM12.50. The basis of PPB's TP remains 16x PER less 20% discount for its conglomerate company status. However, due to Wilmar International Ltd (WIL)'s legal case in Indonesia a further 30% discount was applied to arrive at our old TP of RM10.50. Last week, the Supreme Court of Indonesia indicated (though not official yet) WIL will lose its appeal. While not good news, WIL has already placed a security deposit of USD729m with the Attorney General's Office of Indonesia back in June CY25 and we believe a lot of the bad news are already priced in.As we expect the USD729m payout to be the worst case scenario, we are halving the 30% discount to 15% pending official closure when the formal judgement is issued and impact is clearer. Eventually, current decade's low valuation for PPB should also normalise on recovering earnings with dividends supported by a net cash holding of RM1.3b.

Non-integrated TPs are largely unchanged and still hold better value. Unlike the larger integrated players, we continue to value non-integrated planter using 0.9x PBV. The exceptions are: (i) Genting Plantations which is valued at 1.0x PBV in view of on-going property (including expanding Premium Outlets footprints), and (ii) TSH Resources which is upgraded from RM1.35 to RM1.55 as we adopt 0.9x PBV instead of 0.8x previously.

Non-Integrated Players	Old TP	New TP	Comments
Genting Plantations	5.10	5.10	Maintain 1.0x PBV less 20% for Indonesian provisions
Hap Seng Plantations	2.40	2.40	Maintain 0.9x PBV
Ta Ann	3.90	3.90	Maintain 0.9x PBV
TSH Resources	1.35	1.55	Upgraded from 0.8x to 0.9x PBV
United Malacca	6.00	6.00	Maintain 0.9x PBV

Maintain NEUTRAL. Valuations appear to have bottomed out and are not excessive. However, limited growth is expected beyond CY25 and there is no strong upside catalyst either. Therefore, our NEUTRAL call thus hinges on:

- **Healthy earnings from firm CPO prices**. Approximately 70% of edible oil finds their way into the food chain with c.23% as bio-fuel. As such, edible oil demand is quite visible and resilient with long-term trend-line demand growth of 3%-4% yearly. Supply growth has been short over the past few years, an issue expected to persist for the foreseeable future hence, edible oil prices including that of palm oil should stayfirm, supportive of healthy sector earnings even if growth might be limited.

- **Strong balance sheet**. Many purer upstream players have turned net cash (e.g. HSPLANT, TAANN, TSH and UMCCA); hence, decent to good dividend pay-outscan be expected (unless they embarked on M&A activities). Overall, we expect non-integrated planters to become increasingly dividend-yield plays. For larger integrated players, we expect more M&A or diversification into non-plantation businesses; hence, likely to stay net borrowers. Even so, asthe balance sheet of integrated players such as IOI, KLK and SDG are backed by valuable landbanks, their current gearings levels should not be a key concern to investors and have eased QoQ from 35% to 32% in the latest April to June quarter.

- **Valuations are still not demanding.** Althoughthe Kenanga's plantationsector ratings seem to have bottomed out about six months ago, a possible broadening out of a sector re-rating, albeit a modest one, could be occurring as the Bursa plantation sector ratings appear to be starting to inch up. Nonetheless, current Kenanga's plantation sector ratings of 1.0x PBV and 14-15x PER are not exactly excessive.

Our sector picksare: (i) KLK (OP; TP: RM24.00) for strong upstream, stronger property earnings ahead and easing gearing, (ii) PPB (OP; TP: RM12.50) as we halved our 30% discount due to Wilmar International Ltd (WIL)'s legal case in Indonesia as formal closure of the case is pending soon, and (iii) HSPLANT (OP; TP: RM2.40) on attractive dividend yields (>5%) and RM0.6b net cash (74 sen per share).

Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside	Market Cap (RM m)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE	Net. Div. (sen)	Net Div Yld
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Plantations																	
GENTING PLANTATIONS BHD	MP	4.84	5.10	5.4%	4,342.3	Y	12/2025	39.8	42.8	17.0%	7.5%	12.2	11.3	0.8	12.5%	25.0	5.2%
HAP SENG PLANTATIONS HLDGS	OP	2.00	2.40	20.0%	1,599.4	Y	12/2025	17.8	16.4	-4.4%	-7.6%	11.3	12.2	0.7	6.7%	13.0	6.5%
IOI CORP BHD	MP	3.93	4.20	6.9%	24,380.5	Y	06/2026	22.9	22.5	13.1%	-1.8%	17.2	17.5	1.9	11.2%	11.0	2.8%
KUALA LUMPUR KEPONG BHD	OP	20.30	24.00	18.2%	22,607.3	Y	09/2025	122.0	141.3	58.8%	15.9%	16.6	14.4	1.4	9.7%	50.0	2.5%
PPB GROUP BHD	OP	10.12	12.50	23.5%	14,396.7	Y	12/2025	115.3	122.6	17.0%	6.4%	8.8	8.3	0.5	5.9%	45.0	4.4%
SD GUTHRIE BHD	MP	5.24	5.10	-2.7%	36,238.3	Y	12/2025	28.7	26.5	32.3%	-7.6%	18.3	19.8	1.8	13.0%	17.0	3.2%
TA ANN HOLDINGS BHD	MP	4.15	3.90	-6.0%	1,827.9	Y	12/2025	43.0	41.5	13.8%	-3.5%	9.6	10.0	1.0	10.3%	35.0	8.4%
TSH RESOURCES BHD	OP	1.16	1.55	33.6%	1,492.5	Y	12/2025	13.2	12.7	39.0%	-4.0%	8.8	9.1	0.7	8.1%	3.0	2.6%
UNITED MALACCA BHD	OP	5.60	6.00	7.1%	1,174.7	Y	04/2026	56.4	54.8	1.6%	-2.8%	9.9	10.2	0.7	7.8%	18.0	3.2%
SECTOR AGGREGATE					**108,059.6**					**25.5%**	**1.9%**	**14.7**	**14.4**	**1.1**	**9.5%**		**4.3%**

Source: Bloomberg, Kenanga Research

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PlasticPackaging

Limited Visibility on Recovery

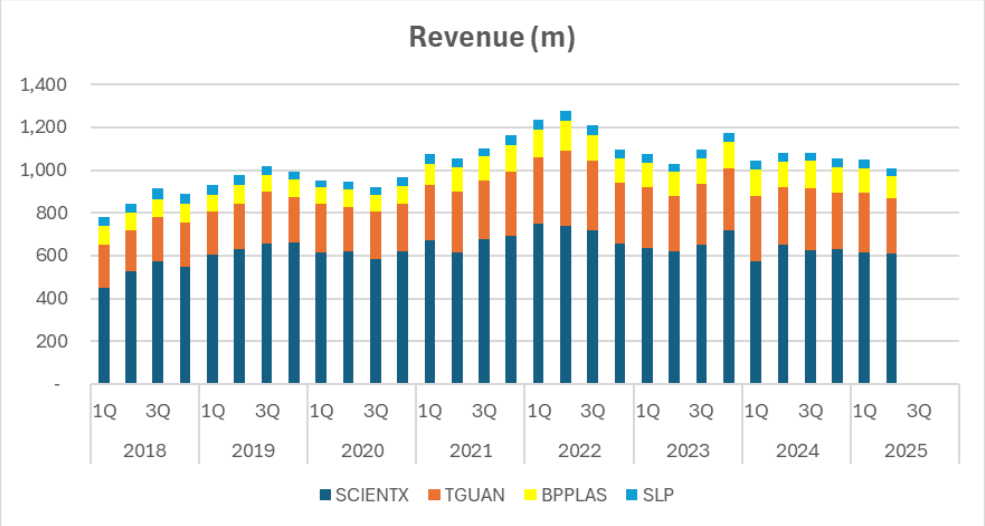
NEUTRAL

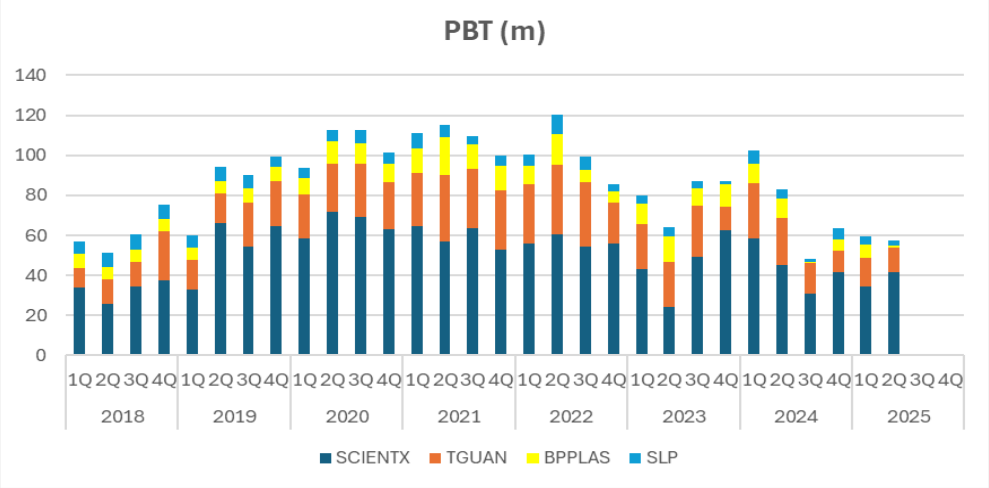
↔

By Chris Tong I christong@kenanga.com.my

Plastic and packagingsector's valuation has come off. SCIENTX's proposed privatising of Scientex Packaging (Ayer Keroh) Bhd suggests that the worst may be over for the sector. However, we stay cautious in the near-termdue to:(i) global trade uncertainties affecting demand, regional competition, and (ii) costpressures. Not surprisingly, local plastic packaging producers saw a weaker 2QCY25 after front-loading bolstered 1QFY25 orders. The sector's 2HCY25 and CY26 profit margins are expected to remain subdued due to muted demand, intense competition as well as unfavourable forex on exports as the MYR is expected to strengthen further. All in, we maintain our NEUTRAL stance on the sector while removingSLP (MP; TP:RM0.89)as our sector top pick. We take this opportunity to downgrade SCIENTX to MARKET PERFORM from OUTPERFORM after its recent share price appreciation. Meanwhile, we remain positive on TGUAN for its encouraging growth momentum in the F&B segment with the stock trading at a discount of close to 25% to its 10-year historical forward price to earnings ratio of ~9x.

Exhibit 1: SCIENTX, TGUAN, BPPLAS, and SLP's Revenue (Aggregate)

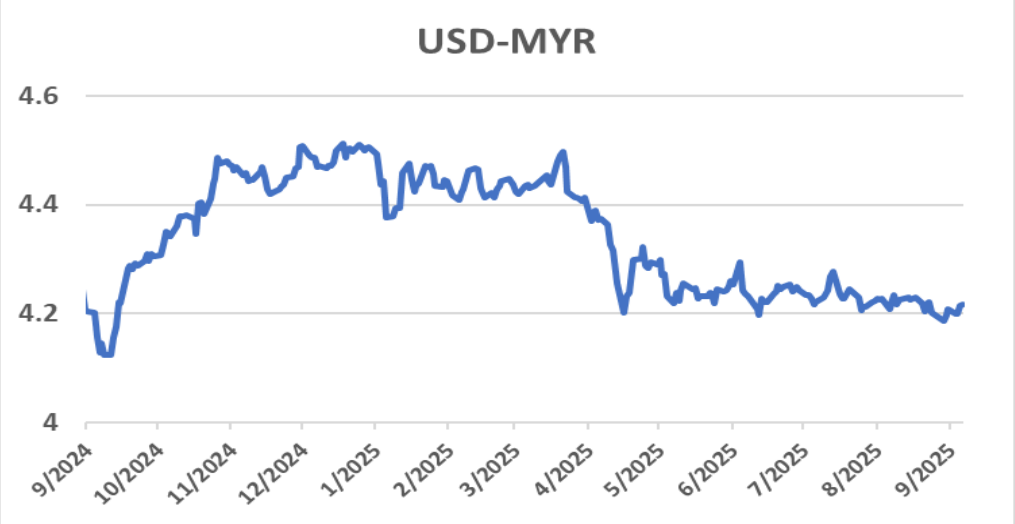




The plastic packaging sector continues to facemultiple headwinds including higher operating cost pressures, intensive competitionand currency fluctuations. CY25-26 visibility is also poor due to global trade uncertainties and risk of slower economic activities.However, demand for premium, thin-gauge or nano packaging film remained encouraging but even so, average selling prices (ASP) are facing pressures fromboth competitive pricing and MYR currency appreciation. This trend is also reflective in the charts above (refer to Exhibit 1) showing weaker PBT despite broadly stable revenues. Following our post-results analysis, and feedback from industry players, we maintained our**Neutral**call, after considering the following key factors:

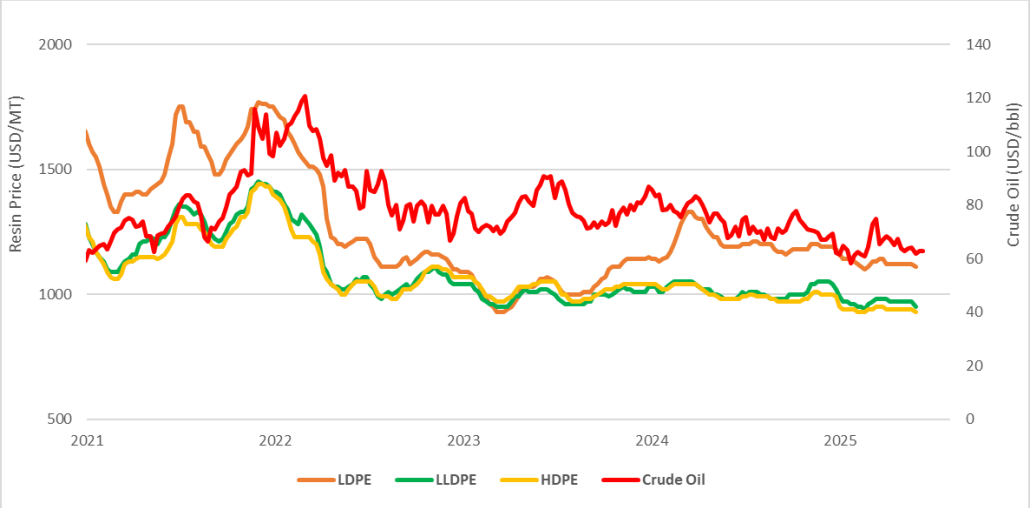
1) **Global Trade Uncertainties**: We see smalldirect impact for the Malaysian plastic packaging sector from higher U.S. tariffs as exports to U.S. amount to under 10% of overall revenue. However, trade tension has created uncertainties for many businesses and asignificant portion of plastic packaging films is used in B2B trades including inter-country trade to ease shipping and logistics. Any slowdown or decline in global trade volumes is thus likely to dampen overall demand for plastic packaging materials. In addition to that, businesses may also be holding back oninventory stocking activities due concerns over possible slowdown in global economic activities. On that note, SCIENTX stood out for being the only player among our coverage that runs a plant in Arizona, USA, which in 2QFY25 is showing improved orders and possibly better ASP as well to meet U.S. demand.
2) **Competition**: Since CY24, plastic packaging players have been facingnot only slower demand growth butmore competition as well due to overcapacity. Part of this arises from manufacturers maintaining their old facilities even after having upgraded to newer ones e.g. new thin-gauge production lines. This allows for operational flexibility but also very competitive marginal pricing for “old” packaging products. Compounding this is demand shifting away from China by some U.S. and European buyers which in turn compel Chinese players to offload stock at lower prices to other buyers such as those in SE Asia.Suchcompetitive pressure is persistingwell into 2025.
3) **MYR Appreciation.** In 1HCY25, the average USD/MYR exchange rate stood at RM4.38, compared to RM4.73 in 1HCY24, leading to some unfavorable forex short-term impact onexport-oriented Malaysian plastic packaging producers. Whilst long-term implication of fluctuating MYR is limited due to imported equipment and inputs such as resin, near-term timing differences between the purchase of resin (hence, inventory impact), sales confirmation and collection of receivables will remain for exporters. That said, the MYR is on a strengthening trend, with Kenanga forecasting the MYR rate to strengthen further against the USDfrom RM4.20 to RM4.02 in 2026(refer to Exhibit 2). As such, the stronger MYR is expected to continue exerting pressure on average selling prices (ASP) and profit margins through forex translation effects. Based on general estimation, every 1% change in forex could impact 2%-3% of the sector’s profitability.
4) **Rising Non-Resin Costs.** Plastic manufacturers are facing additional headwinds from increasing non-resin operating costs, including higher minimum wages commencing this year, which collectively could reduce local producers' profitability by 5%-10%. Meanwhile, resin prices in 1HCY25 were marginally lower by 4% YoY (refer to Exhibit 3). The combination of persistently high crude oil and resin supply, along with OPEC’s decision to further raise production, is expected to limit any significant near-term increase in resin cost.

Exhibit 2: USD/MYR



Source: Bloomberg, Kenanga Research

Exhibit 3: Resin and Crude Oil Prices



Source: Bloomberg, Kenanga Research

Also, competition from both Chinese and local players is expected to persist and likely to further intensify moving forward. The impacts will be seen more pronounced in the industrial-used packaging products as compared to consumer-related packaging products.

On that note, we maintain our conservative sector-wide valuation approach, as we do not foresee a near-term re-rating for the sector due to lack of guidance on earnings recovery visibility. On the bright side, we are seeing the completion of solar panels installation for players such as SCIENTX and BPPLAS that could provide energy cost savings of approximately 10% with the full benefit expected in CY26.

We have removed SLP from our sector top picks following its 2QFY25 results which fell short of our expectation. We remain positive on **TGUAN (OP; TP: RM1.44)** given: (i) its growth momentum in the F&B segment, (ii) its aggressive push into overseas markets with environmentally friendly, high-performing products and (ii) its expansion plans for premium products, including nano stretch films, food wraps and some industrial bags. At the current valuation, TGUAN is trading at a discount of close to 25% to its 10-year historical forward price to earnings ratio of ~9x. We are neutral on **SLP (MP; TP: RM0.89)** that is now trading at a trailing PER of ~20x, in-line with its 10-year historical PER of c.19x. We noted that the decline in its share price is in tandem with the weakness in its performance followed by its latest 2QFY25 results that came in below our expectation. Meanwhile, we also take this opportunity to downgrade **SCIENTX (MP; TP: RM3.60)**from OUTPERFORM to MARKET PERFORM following the group's recent sharp share price appreciation, which was driven by greater resiliency versus its local peers in the packaging segment coupled with strong growth in its property segment (which accounts for ~80% of the group's profitability in 1HFY25).

Peer Table Comparison

Name	Rating	Last Price as of 19 Sep (RM)	Target Price (RM)	Upside	Market Cap (RM m)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE	Net Div. (sen)	Net Div. Yld.
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
BP PLASTICS HOLDINGS BHD	MP	0.705	0.74	5.0%	198.4	Y	12/2025	4.8	9.3	-48.1%	93.3%	14.7	7.6	0.7	5.0%	2.0	2.8%
SCIENTEX BHD	MP	3.50	3.60	2.9%	5,446.9	Y	07/2026	31.5	33.4	-9.2%	6.0%	11.1	10.5	1.3	11.7%	11.0	3.1%
SLP RESOURCES BHD	MP	0.85	0.89	4.4%	269.4	Y	12/2025	3.5	4.6	-20.5%	31.2%	24.2	18.4	1.4	6.0%	4.3	5.0%
THONG GUAN INDUSTRIES BHD	OP	1.12	1.44	28.6%	448.1	Y	12/2025	17.4	20.2	3.9%	16.2%	6.5	5.6	0.4	7.1%	6.0	5.4%
SECTOR AGGREGATE					**6,362.9**					**-9.6%**	**9.8%**	**10.9**	**9.9**	**1.1**	**10.1%**		**4.1%**

Source: Kenanga Research

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Property

Seeking Resilience in Higher Value

OVERWEIGHT ↑

By Clement Chua I clement.chua@kenanga.com.my

2HCY25 sales are expected to compensate for the softer 1HCY25 performance with more project launches slated in the second half of the year. We anticipate the generally higher YoY sales targets to have a lower land sale composition as most developers have rationalised their landbanks or completed strategic land disposals (for data centre opportunities).

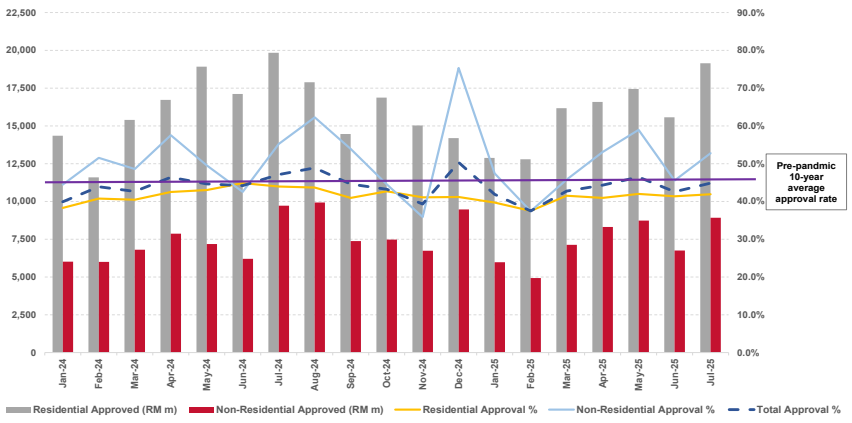
That said, we reassess the property sector with a fresh lens, now favouring developers with less exposure to the affordable segment. Multiple measures were introduced to be supportive of consumption, including the recent BUDI95 initiative, the OPR cut to 2.75% in addition to our expectation of more government supports for lower-income groups in the upcoming Budget 2026. While such policies aim to sustain day-to-day spending power, we believe they reflect a lower capacity for large-ticket discretionary purchases such as homes, particular in the lower-income households. Further, with banks reducing their lending appetite for lower-end mortgages which could be a reflection of the slightly weaker industry home mortgage approval rates, this view appears to be substantiated.

As such, we shift our preference towards developers with a smaller share of affordable housing units, as we believe these players are better positioned for earnings sustainability and resilience amid policy or market risks that disproportionately affect lower-income buyers.In line with this view, we have recalibrated our sector discount-to-RNAV assumptions, assigning more favourable valuations to developers with higher-valued project composition which we opine now carry stronger visibility on land activation and sales over the medium term. Meanwhile, we had also recalibrated and widened our discount on names which are heavily exposed to affordable projects, anticipating possible headwinds to take-ups within the space. We upgrade our Property Sector call to OVERWEIGHT (from NEUTRAL) with our sector top picks being SIMEPROP (OP; TP: RM1.95) and SPSETIA (OP; TP: RM1.43).

More resiliency in higher value properties. We gathered from BNM statistics that residential home loan approval rates for YTD-Jul 2025 stood at 40.7%, -1.3 ppts from the same period last year and well below the 10-year pre-pandemic average of c.47%. The initial tightening of approval rates during the pandemic was largely due to more cautious lending behaviour by banks amidst then-heightened economic and income uncertainties. While broader economic activity has since recovered, approval rates have not reverted to pre-pandemic norms, suggesting a structural shift in lending risk appetite, particularly for residential loans.

In contrast, non-residential (commercial and industrial) property loan approval rates for YTD-Jul 2025 came in at 48.7%, only marginally lower than 49.9% in YTD-Jul 2024, but still notably above the 10-year pre-pandemic average of 43.8%. This relative strength is likely underpinned by resilient demand across the manufacturing and services sectors, driven by pent-up economic activity and foreign direct investments, which have reinforced the commercial and industrial property segments as key growth pillars within the real estate landscape.

Fig 1: Residential, Non-Residential Approval Rates

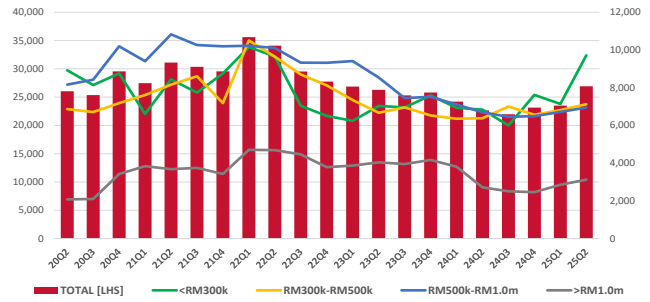


Source: BNM, Kenanga Research

Further diving into inventory overhangs, we note that affordable residential units priced <RM300,000 are contributing more significantly to the sector's excess supply, whereas higher-priced, aspirational homes are trailing more moderately.In our view, this trend may reflect a shift in consumer housing demand dynamics, where pent-up demand for affordable housing (particularly post-pandemic) has largely been fulfilled. As such, present focus in this space could be leading to further accumulationof unsold units at this price range. Overall, we opine that affordability may be less on an issue in the current landscape but perhaps reflecting demand saturation within this category.

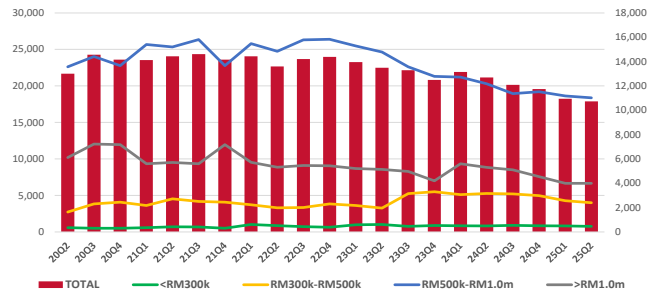
Notably, affordable-centric high-rise developer **MAHSING (OP; TP: RM1.74)** has recently ventured into the redevelopment of premium service apartments following its acquisition of Corus Hotel, KL.

Fig 2: Residential Overhang (units)



Source: NAPIC, Kenanga Research

Fig 3: Service Apartment Overhang (units)



Source: NAPIC, Kenanga Research

Fig 4: Unsold Units Under Construction

Region	2QCY25			1QCY25		
	Residential	Serviced Apartment	Total	Residential	Serviced Apartment	Total
W.P. Kuala Lumpur	4,599	7,381	11,980	4,782	7,718	12,500
W.P. Putrajaya	18	0	18	18	0	18
W.P. Labuan	89	0	89	93	0	93
Selangor	11,470	15,675	27,145	10,359	12,303	22,662
Johor	7,918	6,168	14,086	7,559	6,967	14,526
Pulau Pinang	8,462	3,296	11,758	7,033	3,465	10,498
Perak	7,258	274	7,532	7,640	48	7,688
Negeri Sembilan	3,225	617	3,842	3,086	659	3,745
Melaka	3,688	1,567	5,255	4,324	1,098	5,422
Kedah	2,511	0	2,511	2,239	0	2,239
Pahang	3,098	2,633	5,731	2,761	2,527	5,288
Terengganu	860	0	860	845	0	845
Kelantan	1,324	549	1,873	3,429	420	3,849
Perlis	233	0	233	252	0	252
Sabah	5,056	1,328	6,384	3,734	0	3,734
Sarawak	5,224	2,156	7,380	4,599	1,613	6,212
TOTAL	**65,033**	**41,644**	**106,677**	**62,753**	**36,818**	**99,571**

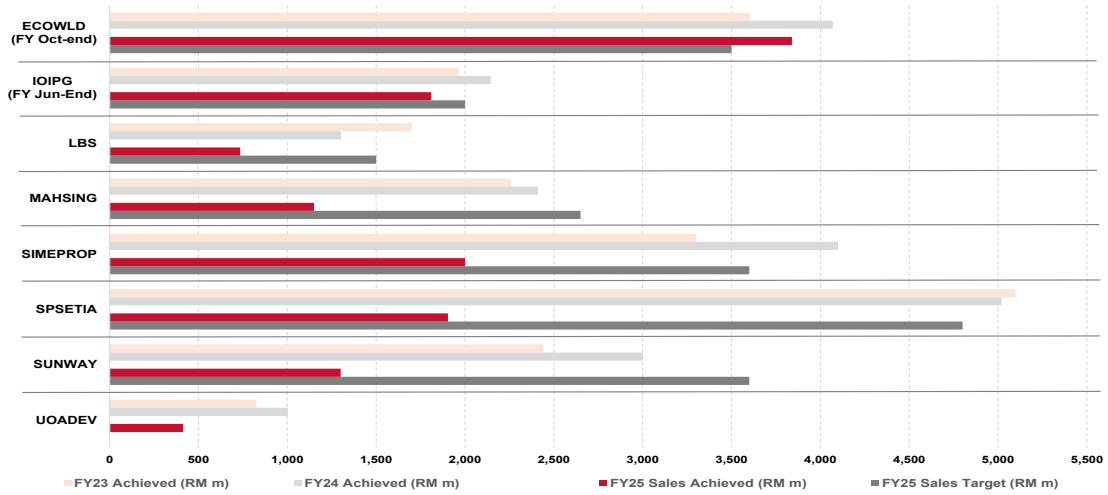
Source: NAPIC, Kenanga Research

Won't stop selling. Despite the abovementioned inventory overhang and indications of softening demand in the affordable housing segment, we observe that property developers have continued to maintain ambitious sales targets, even following robust deliveries in CY23 and CY24.This is supported by a shift toward higher-value residential products, which also implies lower transaction volumes. There is also a sustained focus on industrial developments that offer stronger margins and quick turn-around.

We call out **ECOWLD (MP; TP: RM2.15),** which has already surpassed its FY25 (Oct-end) sales target of RM3.5b and is on track to exceed its previous years' performance of RM4.07b. This is underpinned by the group's increasing emphasis on industrial offerings, which continue to see encouraging uptake.Meanwhile, **SIMEPROP (OP; TP: RM1.95)** has achieved 56% of its RM3.6b sales target as of mid-year. Given its historically stronger second-half seasonal performance, the group may well exceed its FY24 sales achievement of RM4.1b.

A similar trajectory is expected for **SPSETIA (OP; TP: RM1.43)** and **SUNWAY (UP; TP: RM4.73),** both of which are planning significantly higher launches in 2HCY25 to bolster their softer 1HCY25 results, with the latter also seeking a greater presence in Singapore's property market.

Fig 5 : FY23-FYTD25 Sales Performance and Targets



Source: Companies, Kenanga Research

Refreshing our benchmarks. Postupdate, we take the opportunity to recalibrate our applied discount-to-RNAV assumptions across the sector, notably narrowing the discounts for developers we expect to benefit from a stronger sales mix in higher-priced residential offerings. Conversely, we widened the discounts for developers that we believe could face more headwinds in the affordable housing segment, reflecting the shifting demand dynamics as highlighted above.

Arising for this, we have reduced our discount to RNAV for **SPSETIA** and **SIMEPROP** by 5.0 ppts and **SUNWAY** by 10.0 ppts, while increasing our discount for **MAHSING** to 50% from 30%, which is in line with its affordable-centric peer, **LBS (OP; TP: RM0.64).** We had previously attached MAHSING a 30% discount to RNAV in our 31 May 2024 report to reflect improved realisability of its GDV in the Southville township project (GDV: c.RM8.4b, 28% of group total GDV) following the announcement of the catalytic data centre project with Bridge Data Centres. That said, progress on this development remains hindered with MAHSING now pivoting to a build-to-lease model as opposed to joint-ventures, seeking new off-takers. As we had already included its data centre projects into our DCF valuation, we believe reverting its discount to RNAV back to 50% could be justified.

Post adjustment, SPSETIA still holds the highest applied discount within our coverage due to past struggles with its gearing and land monetisation efforts to soften its lower development sales. However, we believe the steep discount reflects value yet to be unlocked, especially with its troubled Battersea Powerstation Project, joint ventured with **SIMEPROP,** projected to finally come out of losses by CY27. **IOIPG (MP; TP: RM2.01)** also shares the high discount of 60% no thanks to poor visibility in its launch pipeline alongside aggressive discounts needed to sell its Xiamen-based products in addition to the group's high gearing of 0.7x. Still, its planned REIT spin-off could act as a potential re-rating catalyst, pending clarity of its portfolio composition and execution timeline. All calls remain unchanged, post-refresh.

Fig 6 : Kenanga's Discount to RNAV Refresh

Stock	Old			Revised			Remarks
	Discount to RNAV	Target Price	Call	Discount to RNAV	Target Price	Call	
ECOWLD	40%	2.15	MP	40%	2.15	MP	**SoP-TP** • RM1.98 derived from prop. dev. • RM0.17 derived from data centres
IOIPG	60%	2.01	MP	60%	2.01	MP	-
LBS	50%	0.640	OP	50%	0.640	OP	-
MAHSING	30%	2.32	OP	**50%**	**1.74**	OP	**SoP-TP** • RM1.45 derived from prop. dev. • RM0.29 derived from data centres
SPSETIA	65%	1.25	OP	**60%**	**1.43**	OP	-
SIMEPROP	50%	1.79	OP	**45%**	**1.95**	OP	**SoP-TP** • RM1.76 derived from prop. dev. • RM0.20 derived from data centres
SUNWAY	50%	4.56	UP	**40%**	**4.73**	UP	**SoP-TP** • RM1.43 derived from prop. dev. • RM0.53 derived from SUNREIT • RM0.73 derived from SUNCON • RM1.55 derived from healthcare • RM0.49 derived from other sectors
UOADEV	50%	1.91	OP	50%	1.91	OP	-
AVERAGE	**49%**			**49%**			

Source: Companies, Kenanga Research

We upgrade the property sector to OVERWEIGHT, on the back of resilient opportunities still present within the space despite potentially softer consumer sentiment. Several names also stand out as viable medium-term picks with dividend yields at 5%-6% through our recently initiated **LBS (OP; TP: RM0.64)** and **UOADEV (OP; TP: RM1.91).**

That said, our Top Picks for the sector are **SIMEPROP (OP; TP: RM1.95)** and **SPSETIA (OP; TP:RM1.43),** names which we believe are well-positioned to deliver a stronger 2HCY2025 performance, both in terms of sales and earnings, potentially driving a positive re-rating in share prices.

Both developers are joint-venture partners in the Battersea Power Station project, which, while previously a drag on earnings due to its protracted development and impairments, is now progressing towards gradual profitability. We believe this turn-around could help restore investor confidence and lift the overhang in sentiment previously associated with the project, further supporting revaluation upside for both names.

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Peer Table Comparison

Name	Rating	Last Price as of 19 Sep 2025 (RM)	Target Price (RM)	Upside	Market Cap (RM m)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net. Div. (sen)	Net Div Yld
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
PROPERTY DEVELOPERS																	
ECO WORLD DEVELOPMENT GROUP	MP	2.24	2.15	-4.0%	6,706.5	Y	10/2025	13.0	14.4	13.2%	10.1%	17.2	15.6	1.3	8.1%	7.0	3.1%
IOI PROPERTIES GROUP BHD	MP	2.06	2.01	-2.4%	11,342.7	Y	06/2026	7.9	8.6	49.6%	9.0%	26.0	23.9	0.5	1.8%	4.5	2.2%
LBS BINA GROUP BHD	OP	0.445	0.640	43.8%	686.1	Y	12/2025	6.2	7.6	45.7%	23.3%	7.2	5.8	0.3	5.4%	2.3	5.2%
MAH SING GROUP BHD	OP	1.13	1.74	54.0%	2,893.0	Y	12/2025	10.5	10.2	12.0%	-2.8%	10.8	11.1	0.7	6.4%	4.5	4.0%
S P SETIA BHD	OP	1.03	1.43	38.8%	5,153.2	Y	12/2025	6.1	7.3	-33.3%	18.9%	16.9	14.2	0.3	2.4%	2.0	1.9%
SIME DARBY PROPERTY BHD	OP	1.45	1.95	34.5%	9,861.2	Y	12/2025	7.6	8.2	3.2%	7.3%	19.0	17.7	0.9	4.9%	3.0	2.1%
SUNWAY BHD	UP	5.38	4.73	-12.1%	33,492.4	Y	12/2025	28.2	23.1	66.8%	-18.3%	19.1	23.3	1.9	10.1%	6.5	1.2%
UOA DEVELOPMENT BHD	OP	1.79	1.91	6.7%	4,752.5	Y	12/2025	12.8	13.7	40.4%	7.0%	13.9	13.0	0.8	6.0%	11.0	6.1%
SECTOR AGGREGATE					**74,887.4**					**30.4%**	**-3.8%**	**20.7**	**21.5**	**0.8**	**5.3%**		**3.2%**

Source: Kenanga Research

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REIT

Easing MGS Yields to Support Valuation

NEUTRAL
↔

By Chris Tong I christong@kenanga.com.my

We maintainour NEUTRAL stance on REIT. While the latest BNM's 25 bps OPR cut has boosted sentiment in the sector, valuations appear to have been adequately priced in as we observedthe KLREIT index rising by c.14% since March 2025, despite headwinds such as the additional SST on commercial rentals that has commenced from July 2025.On the 8% SST, we anticipate only marginal immediate impact to the REIT sector as we believe the costpass-through to consumers in the retail segment is achievable with a slight upward revision in product prices, while certain segments such as office and industrial will be more insulated on better financial capacity and longer lease terms. That said, the SST may hinder mall operators' near-term ability to raise rent should the SST cause tenant's apprehension.

Following sustained MGS yield traction around the 3.5% level in addition to Kenanga's revised in-house expectation of three U.S. Fed rate cuts ahead (from two previously), we adjust our MGS yield assumption downward from 3.75% to 3.5%, hence lifting our TP for most names under our coverage by c.5% each (refer to Exhibit 5). That said, we are revising our TP for CLMT from RM0.70 to RM0.65 but upgrading it to OUTPERFORM from MARKET PERFORM after its share price fell c.11% with ~7.5% net dividend yield for FY26. While there is no sector top pick, our "Not Rated" call on PARADIGM (TP: RM1.10) may also interest investors for its appealing prospects in Johor's growing market and a 7% above-average net dividend yield in FY26.

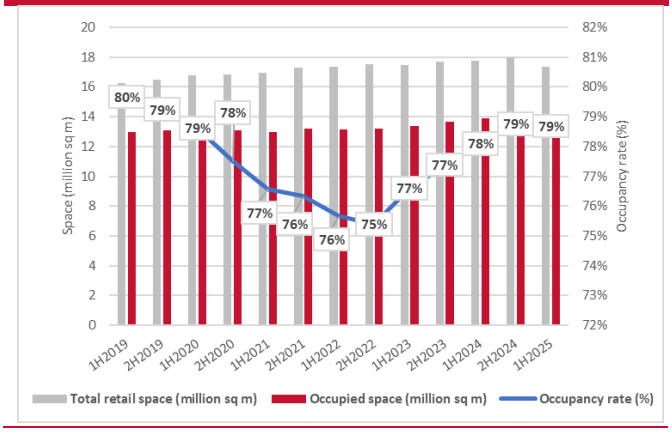
8% Sales and Service Tax(SST)on rentals and its impact on REITs. In early June 2025, the Malaysian government announced the imposition of an 8% SST on rental and leasing services for all commercial spaces, effective 1st July 2025. Under this directive, REITs and property landlords will act as collecting agents by billing tenants the SST and remitting the amount to the tax authorities. Given that the tax is applied universally across commercial propertiesand not specifically targeted at REIT-owned assets, we expect tenantsto pass on the additional cost to end-consumers.

Typically, rental expenses constitute c.15% of total revenue for retail tenants. With the implementation of the 8% SST, the rental component of a tenant's cost structure would increase from 15% to 16.2%. This implies that tenants would hypothetically only need to raise selling prices slightly to offset the additional rental tax, suggesting the overall impact on end-consumers will likely be marginal. In the event if tenants are unable to pass through the additional cost to consumers, it will inevitably be more difficult for REIT operators to raise rental rates after tenants are burdened with the 8% increase in rental costs.

That said, we are mindful that the impending SST hike will not affect all REIT segments equally. Compared to the retail segment, we believe the office and industrial segments are more insulated. This is primarily due to two factors, namely: (i) the lower rental-to-revenue ratios among MNC office tenantswhich typically have stronger financial capacity to absorb incremental costs, and (ii) the longer lease durations for industrial tenants, averaging between 5 to 10 years, where rental escalations are already locked in.

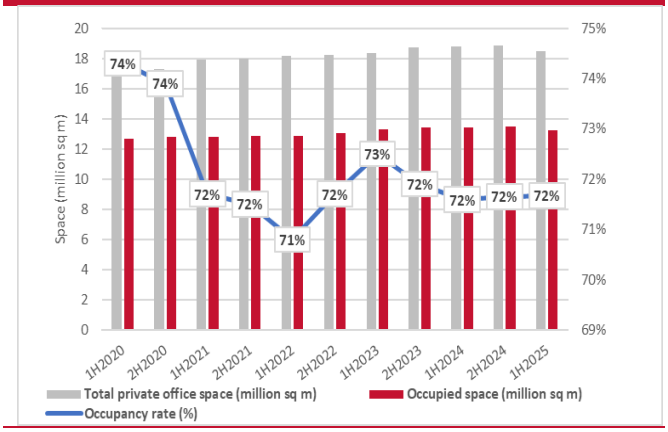
Segmental Reviews

Exhibit 1 - Retail Space Occupancy Rate Trend



Source: NAPIC, Kenanga Research

Exhibit 2 - Office SpaceOccupancy Rate Trend



Source: NAPIC, Kenanga Research

Retail- Stable mall occupancy. 1HCY25 retail occupancy rates in shopping complexes held steady at 79.0% from 2HCY24 from

a total retail space of 17.3m sqm.

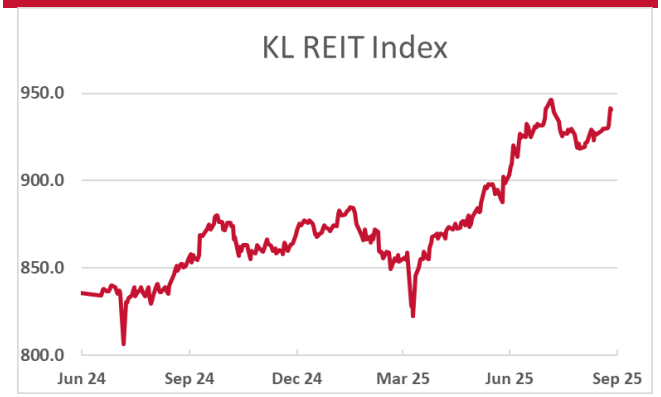
Office- Steady office occupancy.1HCY25 occupancy rate was broadly stable at 72.0% with a total private office space of 18.5m sqm.

Hospitality - Weak 1HCY25 where hotels under our coverage recorded weaker performances YoY mainly due to the full Ramadan season in the quarter where locals tend to host less MICE activities, and have less staycations, coupled with probable down-trading from some high-end hotels to cheaper alternatives in certain tourist groups, likely due to the U.S. tariffs anxiety. While we do not anticipate strong recovery for the segment in 2HFY25, hoteliers should be partially cushioned on the back of the increased allocation on tourism in the national budget and our in-house projection of 27.7m tourist arrivals in Malaysia (+15% increase from 2024). REITs with hospitality exposures include SUNREIT and KLCC.

Exhibit 3 - 10-Year MGS Yield Movement

Source: Bloomberg

Exhibit 4 - KLREIT Index from June 2024



Source: Bloomberg

With MGS yields stabilising around the 3.5% level and taking into account Kenanga's revised in-house expectation of three U.S. Fed rate cuts ahead (from two previously), we are adjusting our MGS yield assumption downward from 3.75% to 3.5%, hence lifting our TP for most names under our coverage by c.5%. On the other hand, following the recent placement undertaken by CLMT, which has been net-dilutive to unitholders, the group has reiterated its direction to continue expanding its industrial portfolio via acquisition opportunities. We are increasing our yield spread for the group from 3% to 3.75% as debt headroom appears limited on a gearing ratio at 43% as of 2QFY25, suggesting that future sizeable acquisitions could involve equity fund-raising. Having said that, its share price has been sold down 11% from RM0.70, warranting an upgrade on valuation basis from MARKET PERFORM to OUTPERFORM while supported by a 7.5% net dividend yield for FY26.

We reiterate ourNEUTRAL stance on the REITsectoras the upsides appeared to have been adequately priced in by the market following the 25 bps rate cut by the BNM in Jun 2025. This is also reflective by the ~14% rally in KLREIT index since March 2025 (refer to Exhibit. 4) despite headwinds such as the additional 8% SST on commercial rentals which has commenced from July 2025.

PARADIGM (non-rated) – after its recent IPO, we remain positive on PARADIGM on a 7% estimated net dividend yield for FY26 (above sector's average of 5%-6%) supported by its Bukit Tinggi Shopping Centre's highly resilient tenant profile and its Paradigm JB mall which is well positioned to ride on the growth of the booming economy in the southern part of Johor, underpinned by the upcoming RTS and the ongoing JS-SEZ developments. (more detailed information in our IPO note on PARADIGM, published on 10 June 2025)

Exhibit 5 - Target Yield at a Glance

REIT	Stock Call	Target Price (RM)	Target Yield (%)
AXREIT	MP	1.96 (+5%)	5.00 (-0.25)
CLMT	MP	0.65(-7%)	7.25(+0.50)
IGBREIT	UP	2.51 (+5%)	5.25 (-0.25)
KLCC	MP	8.93 (5%)	5.25 (-0.25)
SUNREIT	MP	2.22 (5%)	5.00 (-0.25)

^ Derived from yield spread above our 10-year MGS yield assumption of 3.5%.
Source: Kenanga Research

Peer Table Comparison

Name	Rating	Last Price as of 19 Sep (RM)	Target Price (RM)	Upside	Market Cap (RMm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE	Gross Div. (sen)	Gross Div Yld
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
REITS																	
AXIS REIT	MP	2.05	1.86	-9.3%	4,142.6	Y	12/2025	10.4	10.6	28.1%	2.0%	19.7	19.3	1.3	6.3%	9.6	4.7%
CAPITALAND MALAYSIA TRUST	OP	0.62	0.65	12.9%	2,065.4	N	12/2025	5.1	5.0	13.1%	13.7%	12.1	12.3	0.6	5.1%	4.7	7.6%
IGB REIT	MP	2.69	2.40	-10.8%	9,748.5	N	12/2025	11.7	13.7	14.6%	39.8%	23.0	19.7	2.5	10.0%	11.0	4.1%
KLCCP STAPLED GROUP	MP	8.61	8.52	-1.0%	15,543.9	Y	12/2025	47.6	48.8	9.8%	2.5%	18.1	17.7	1.2	6.3%	45.7	5.3%
SUNWAY REIT	OP	2.09	2.11	1.0%	7,157.8	N	12/2025	12.0	12.5	16.8%	3.8%	17.4	16.8	1.4	7.2%	10.8	5.2%
SECTOR AGGREGATE					**38,658.2**					**14.1%**	**11.2%**	**18.9**	**17.0**	**1.4**	**7.0%**		**5.4%**

Source: Bloomberg, Kenanga Research

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Renewable Energy

Endless Sunshine

OVERWEIGHT
↔

By Nigel Ng I nigel@kenanga.com.my

At least an estimated RM15b of EPCC contracts has been set in motioncounting LSS, LSS5+, and the latest advent of Corporate Renewable Energy Supply Scheme (CRESS). Thanks to CRESSbeing potentially propelled by lower system access charge (SAC), and rising data centre tariffs, there could be greater upside to our estimated industry EPCC pie.At time of writing, nearly all LSS5+ awards have been made known publicly,shifting the spotlight for LSS6 bidding to take centre stage in 2026, which are yet to be factored into our numbers.

On costs, China's anti-involution policy could lift module prices ~14% to USD0.10/W once inventory clears, which may augmentreturns risk for LSS5+ asset owners, particularly low-tariff bidders, assuming contract for construction has yet to be locked in.On the other hand, EPCC players remain insulated with >1GW of panels pre-procured, which by our count would be sufficient to insulate against costs for LSS5+. Heading into 2026, the market will favour players that can scale quickly via partnerships and deliver flawless execution. We remain OVERWEIGHT on the sector, with SLVEST (OP; TP: RM3.25) and KJTS (OP; TP: RM2.12) as our top picks to ride the National Energy Transition Roadmap (NETR).

Expecting another 1-2 listed players to emerge as LSS5+ winners.A total of 13 developers have been awarded contracts under LSS5+, but only 7 listed firms have made announcement so far. We anticipate another 1–2 listed players to emerge once agreements are finalised, with announcements being made progressively (see Exhibit 1). That said, about 406MW of capacity is still undisclosed, likely being tied into final details. We believe this tranche may be allocated to similar or mid-sized projects, with potentially beneficiaries counting the likes of recent ACE market debutant WawasanDengkil which have stated their interest in participating in LSS5+, and several unlisted names which we understand to be among the bidders. With current solar panel prices, we expect winning tariffs to range between RM0.14–0.17/kWh, supporting project IRRs of roughly 8%

Exhibit 1: Winners of the LSS5+

No.	Winner	Capacity (MWac)
1	Malakoff Corp Bhd and Solarvest Holdings Bhd	470.00
2	reNIKOLA Holdings SdnBhd	400.00
3	CitaglobalSdnBhd (Floating)	200.00
4	Jaks Resources Bhd	199.99
5	Sunview and Cypark	100.00
6	YTL Power	100.00
7	Samaiden Group Bhd and JBB Builders (M) SdnBhd	99.99
8	Others	406.00
	Total	**1,975.00**

Source: Company, Kenanga Research

CRESS turning more compelling for data centres. Government has recently lowered the System Access Charge (SAC) by RM0.05/kWh, improving the economics for corporates sourcing green power. Meanwhile, the introduction of an ultra-high voltage tariff has lifted data centre electricity costs to RM0.59/kWh, making CRESS a cost-effective alternative.

At current economics, solar developers need ~RM0.59/kWh to achieve an 8% IRR - on par with conventional grid tariffs - making CRESS adoption by data centres almost inevitable. Given the likelihood of further hikes from TNB to support grid infrastructure upgrades, CRESS provides a compelling long-term hedge for large energy users such as data centres. With its 21-year fixed PPA, CRESS offers protection against future tariff hikes while supporting ESG and RE100 commitments.

Exhibit 1: Estimated UHV Electricity Tariff for 8% IRR

Energy Source	Output	System Access Charge (RM / kWh)	Estimated Tariff (RM / kWh)
Conventional Electricity	N.A.	N.A.	0.59
Green Electricity Tariff (GET) Programme	N.A.	N.A.	0.65
***Solar**	Non-firm Output	0.40	0.59
***Solar with BESS**	Firm Output	0.20	0.59

**Kenanga Research's estimates*
Source: EC, Kenanga Research

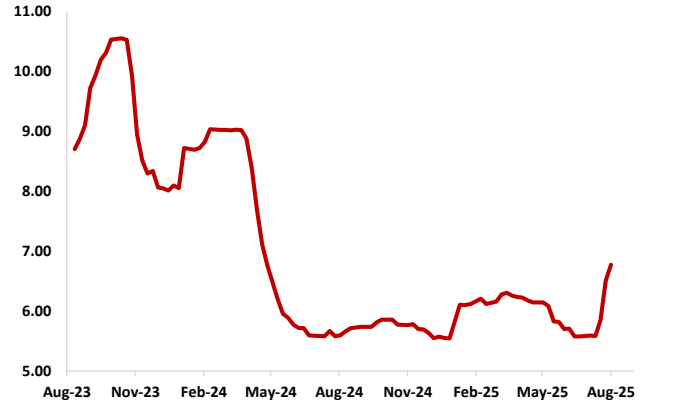
RM15b EPCC jobs up for grabs, CRESS adds more upside. Solar EPCC players are currently racing against time to execute Corporate Green Power Programme (CGPP) projects before the end-2025 deadline while 4GW of LSS5/LSS5+ awards are set to be rolled out in the immediate term, targeting completion by end-2027. Order books are already at record highs on the back of strong job flows and poised to climb further. Altogether, LSS5, LSS5+ and CRESS are expected to unlock at least RM15b worth of EPCC opportunities.

Risks manageable for EPCC players - reinforcing our preference for EPCC players over asset owners. China's anti-involution policy has pushed polysilicon prices up 21% MoM (see Exhibit 1), which could lift module prices by ~14% to USD0.10/W (from USD0.09/W) once existing stocksare drawn down. Nevertheless, we view such a scenario as unlikely in 2025 due to persistent industry overcapacity. We project module prices to ease to USD0.09/W in CY25 (vs. USD0.10/W in CY24) before rebounding 19% to USD0.11/W in CY26.

Most EPCC players have pre-procured >1GW panels (sufficient for LSS5+), backed by fixed-price contracts and front-loaded procurement. While suppliers may attempt to renegotiate if prices spike sharply, we expect EPCC players to still secure panels below prevailing market rates.However, we still foresee potential margin pressure for LSS5+ projects as asset owners may be more cost conscious to protect project IRRs.

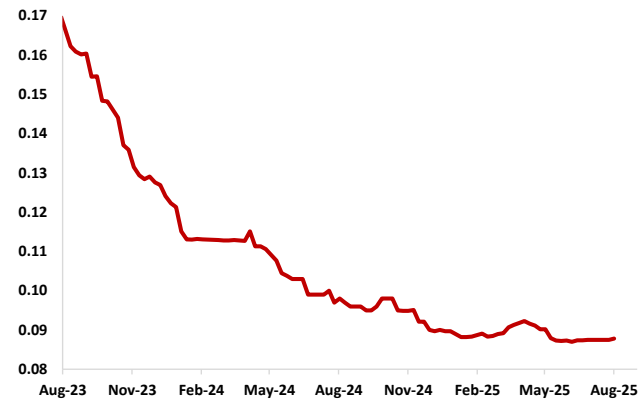
For asset owner, the effect on LSS5 should be minimal but LSS5+ participants - especially those that submitted bids at lower tariffs - could see some pressure on project IRRs. Looking ahead, LSS6 bidding tariffs are likely to increase to RM0.16–0.20/kWh, with EPCC contract values around RM2.2m/MW. Given the low project IRRs of ~8% in LSS jobs and rising cost risks, we prefer EPCC contractors over asset owners.

Exhibit 3: Polysilicon Price (USD/kg)



Source: Bloomberg, Kenanga Research

Exhibit 4: Solar Module Price (USD/W)



Source: Bloomberg, Kenanga Research

New rooftop solar scheme to replace NEM – longer payback, slower adoption. With the NEM quota frozen since end-Jun 2025, the government will roll out the Solar Accelerated Transition Action Programme (Solar ATAP) this December. Unlike NEM's one-for-one offset (~RM0.45/kWh), Solar ATAP compensates consumers at the System Marginal Price (SMP) - the wholesale clearing price that resets every 30 minutes - averaging just ~RM0.23/kWh.

Under our assumptions, residential rooftop solar now carries a payback of 8–9 years vs. 4–5 years under NEM. This is unsurprising, as policymakers are deliberately steering the market towards BESS adoption to ease grid strain. As such, we expect Solar ATAP to see a slow take-up, particularly among residential and commercial users.

What to watch in2026. We are keeping an eye out on EPCC players thatcan secure partnerships to access more capital and scale faster- moves that could trigger a rerating. Execution will also be one of the key catalysts. Historically, solar EPCC stocks have been newsflow-driven with share prices reacting to new project awards. With expectations already priced in, the initial excitement may fade as the market begins to focus on real outcomes. While the EPCC pie continues to expand, rising execution risks - driven by heavier outsourcing and potential panel price swings - could compress margins. Meanwhile, Budget 2026 should shed more light on LSS6 and Solar ATAP, including quota allocations and scheme structure. We also expect the government to push for BESS adoption, making it compulsory for all solar plants from 2026 onwards to ease grid strain, particularly from LSS6.

Top picks. With CRESS turning more attractiveand the new tariff providing upside, we expect stronger contract flows over the medium term. Versus our 3QCY25 outlook, we have rotated our then top pick from **PEKAT** to **KJTS** given expectations of a slower take-up in rooftop solar and PEKAT's fair valuationafter +49% share price rally since our Mar 2025 initiation, while maintaining our position in **SLVEST**. Our selection rationales are as follows:-

- **SLVEST** for its strong market position, execution track record, clientele and value proposition of its PV system financing programme, and its strong earnings visibility backed by sizeable outstanding order and tender books, and recurring incomes from a growing portfolio of solar assets.
- **KJTS**,being Malaysia's only listed energy efficiency player, allowing investors to tap into a RM41b cooling energy market, which is seeing a new wave of spending due to regulations. Pivoting from one-off EPCC to cooling as a service, the game-changing RM1.5b Stonepeak JV boosts KJTS's ability to solve upfront capex needs of its clients, allowing quicker scale-up beyond its current project sizes, all while securing recurring income at mid-teens IRR.

Peer Table Comparison

Name	Rating	Last Price @ 19/9/25 (RM)	Target Price (RM)	Upside	Market Cap (RM m)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE	Net. Div. (sen)	Net Div Yld
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
KJTS GROUP BHD	OP	1.65	2.12	28.5%	1,136.6	Y	12/2025	2.3	4.0	20.8%	71.1%	70.3	41.1	12.0	16.4%	0.5	0.3%
PEKAT GROUP BHD	MP	1.77	1.68	-5.1%	1,143.6	Y	12/2025	7.2	8.5	109.0%	17.5%	24.6	20.9	4.4	24.0%	0.0	0.0%
SAMAIDEN GROUP BHD	OP	1.21	2.08	71.9%	561.8	Y	06/2026	6.9	8.4	24.0%	21.6%	17.4	14.3	4.8	29.8%	0.0	0.0%
SOLARVEST HOLDINGS BHD	OP	2.72	3.25	19.5%	2,233.6	Y	03/2026	10.1	13.7	48.7%	36.1%	27.0	19.8	5.3	22.2%	0.0	0.0%
SUNVIEW GROUP BHD*	NR	0.39	NR	N.A.	218.6	Y	09/2025	2.2	2.4	21.8%	7.9%	15.8	15.2	N.A.	N.A.	0.0	0.0%
SWIFT ENERGY TECHNOLOGY BHD	OP	0.245	0.470	91.8%	245.2	Y	09/2025	1.3	2.0	-29.3%	53.8%	18.9	12.3	3.1	19.1%	0.0	0.0%
Sector Aggregate					**5,539.3**					**32.5%**	**34.7%**	**29.0**	**20.6**	**5.9**			**0.1%**

Source: Kenanga Research

**Note that Sunview numbers based on Bloomberg consensus*

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Seaport& Logistics

Uncertainty Over Trade Tariffs

NEUTRAL
↔

By Wan Mustaqim Bin Wan Ab Aziz I wanmustaqim@kenanga.com.my

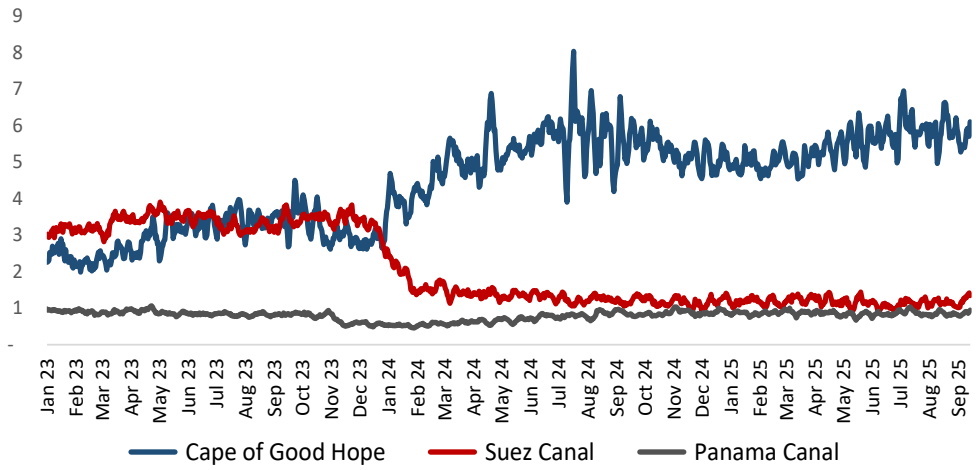
We maintain our NEUTRAL stance on the sector. The WTO in August 2025 revised upwards its projection for CY25 global merchandise trade volume growth to 0.9% (from a decline of 0.2%) citing stronger-than-expected frontloading impact prior to the implementation of the US reciprocal trade tariffs. However, it cut its projection for CY26 global merchandise trade volume growth to 1.8% (from 2.5%) quoting surge in tariffs and trade policy uncertainty in addition to the potential escalation of Middle-East conflicts. We also acknowledge that global trade will have to navigate stricter regulations on carbon emissions. Nevertheless, the domestic logistics sector fared better as Malaysia is a beneficiary of booming e-commerce. WPRTS (OP; TP:RM6.00) is our sector top pick, from its stronger position post-port charges hike, being a key beneficiary of trade diversion.

Uncertainty over trade tariffs. Global trade has deteriorated sharply due to a surge in tariffs, trade policy uncertainty, and the shipping diversion from the Red Sea continuing to weigh down on global trade, especially the Asia-Europe routes (**WPRTS** indicated that 80% of the shipping line still arrived outside of scheduled time). The diversion from the Suez Canal to the Cape of Good Hope has resulted in longer voyage for the Asia-Europe route (which contributes 30% of global container volume), reducing the frequency of calls that shipping lines could make at **WPRTS**'s ports (as well all other ports in the region). The WTO in August 2025 revised upwards its projection for CY25 global merchandise trade volume growth to 0.9% (from a decline of 0.2%) citing stronger-than-expected frontloading impact prior to the implementation of the reciprocal trade tariff. However, it cut its projection for CY26 global merchandise trade volume growth to 1.8% (from 2.5%) quoting surge in tariffs and trade policy uncertainty in addition to potential escalation of Middle-East conflicts.

Closer to home, the WTO cited an emerging trend of connecting economies or countries that benefited from the trade diversion on US-China trade tensions (see Exhibit 2 on trade war impact in 2018−2022, when other economies recovered faster than China). Malaysia, Singapore, India and Vietnam's growth is surging due to their emerging role as "connecting" economies, trading across geopolitical blocs, thereby potentially mitigating the risk of trade fragmentation. Based on the latest Malaysia's external trade in August, exports to the US fell for the first time in 20 months (-16.7% vs. July 3.8%) as higher US tariff kicks in. Consequently, the US now is Malaysia's third largest export destination behind China, while Singapore remained on top. We expect domestic logistic sector growth to remain steady going into 2026, which is a beneficiary of the booming e-commerce, supported by the global tech up-cycle led by AI demand, a resilient US economy, and potential trade diversion amid US-China trade tensions.

Presently, the US is now Malaysia's third largest export destination (after Singapore and China) as higher US tariff kicks in. We believe that Malaysia will benefit from the trade diversion as the global trade reposition itself around the higher US tariff barriers. Note that, during the 12-month period for the trade war from Feb 2018 (see Exhibit 3), we saw local listed port operators' share prices trading sideways except for **BIPORT (MP; TP:RM5.15)**which took a dive due to its largest exposure to China, its biggest LNG export market. China, thebiggest export destination for Malaysia in 2019−2022 (Singapore took first place starting 2022), saw a double whammy (US tariff hike and ports closure due to the pandemic lockdown).Overall, Malaysian ports' container growth volume is expected to remain in single-digit,partially benefitting from the potential trade diversion amid US-China trade tensions while the biggest beneficiary in the long-run could be **BIPORT** due to its largest exposure to China as its biggest LNG export market.

Exhibit 1: Daily Transit Trade Volume*



**million tonnes, 7-day moving average*
Source: International Monetary Fund, United Nations, Port Watch

We also acknowledge that stricter regulations on carbon emissions may pose new challenges to global trade, particularly, one from the United Nations' International Maritime Organization (IMO) and another from the European Union (EU). While the exact implications of the regulations of the IMO and EU's Carbon Border Adjustment Mechanism (CBAM) on the seaport and logistics sectors remain unclear (especially for CBAM which is still pending finalisation and to take effect by 2026), the volume of containers heading to the EU will certainly be affected (about 18% of container throughput under Asia-Europe trade). This is especially so for those originating from China, which is a major exporter of iron, steel and aluminium to the EU.

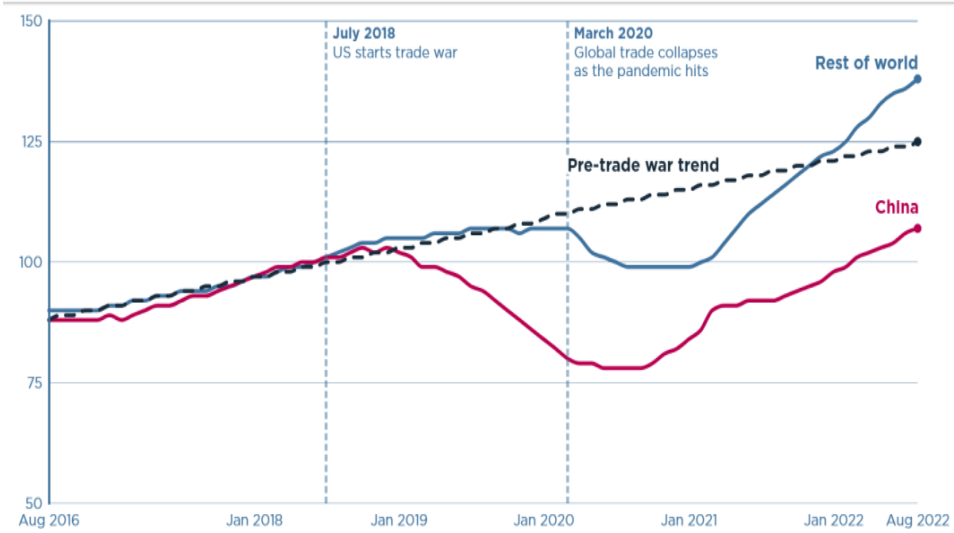
- The ships must record a 2% annual improvement in their carbon intensity from 2023 through 2030 or face being removed from service.
- Meanwhile, the EU's CBAM policy could disrupt the exports of certain commodities (iron and steel, cement, aluminium, fertiliser, electricity, hydrogen) to the EU. During the transition period between Oct 2023 and Dec 2025, EU importers must report embedded emissions in goods imported on a quarterly basis, as well as any carbon price paid to a third country. When the CBAM takes full effect starting 2026, importers will need to buy carbon credits reflecting the emissions generated in producing them.

Logistics to ride on e-commerce boom. On the other hand, the domestic logistics sector still fared better as Malaysia's total trade moderated to 3.8% as of YTD-Aug 2025 versus full-year 2024 growth of 9.2% (trade surplus at RM86.1b as of Aug 2025), especially in the domestically driven third-party logistics (3PL) sector (thanks to the on-shoring business trend), which is less vulnerable to external headwinds, being buoyed by booming e-commerce. Industry experts project the local e-commerce gross merchandise volume to grow at a CAGR of 7% from 2023 to 2027, reaching RM1.9t by 2027 from RM1.4t in 2023. Local players such as **SWIFT (UP; TP: RM0.32),** however, are faced with intense competition from Chinese players which constrain local players' ability to fully leverage on Malaysia's strong total trade growth. This situation arises due to the irrational pricing set by Chinese logistics players despite the rising logistics operating costs (manpower & stricter weight limit regulation) and Chinese logistics players typically coming in as a package from the new entrant of China foreign direct investment (new plants).

The booming e-commerce will spur demand for distribution hubs and warehouses to enable: (i) just-in-time (JIT) delivery, (ii) reshoring/nearshoring to bring manufacturers closer to end-customers, (iii) efficient automation system, including interconnectivity with the customer system, and (iv) warehouse decentralisation to reduce transportation costs and de-risk the supply chain. There is also strong demand for cold-storage warehouses on the back of the proliferation of online grocery start-ups.

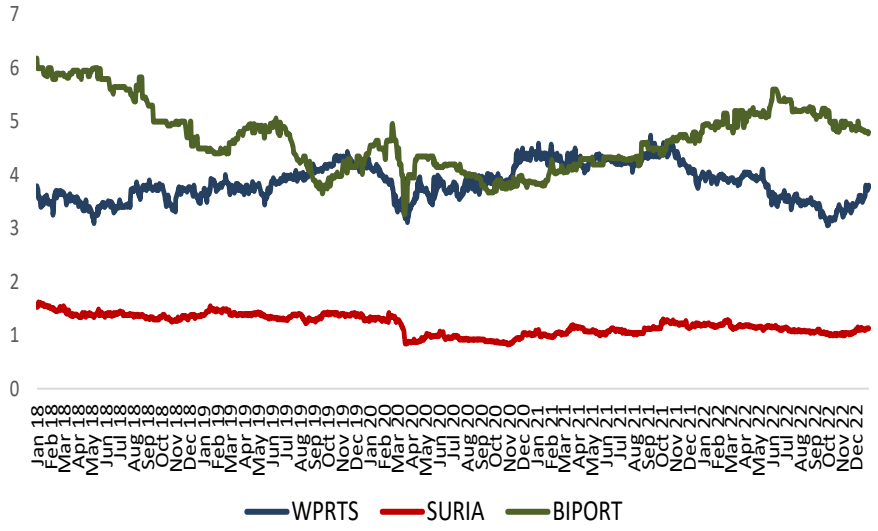
We maintain **NEUTRAL** on the sector and out top pick is **WPRTS** for: (i) its resilient earnings underpinned by long-term contracts with key clients such as Ocean Alliance, (ii) its long-term growth prospect driven by the Westports 2 expansion project, and (iii) its price competitiveness, i.e. lower transhipment tariffs vs. peers such as Port of Tanjung Pelepas and Port of Singapore. We believe that **WPRTS** would be able to weather the challenging global trade outlook as key beneficiary of trade diversion, while effectively managing its yards congestion issues by the significant hike in containers storage charge that can withstand vessels bunching from Middle-East crisis.

Exhibit 2: Trade War Impact in 2018–2022



Source: Constructed by theUS Bureau of Census
www.piie.com

Exhibit 3: Listed Port Operators' Share Price Performance in 2018–2022



Source: Bloomberg, Kenanga

Peer Table Comparison

Name	Rating	Last Price as at 19.09.2025 (RM)	Target Price (RM)	Upside	Market Cap (RMm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE	Net. Div. (sen)	Net Div Yld
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
BINTULU PORT HOLDINGS BHD	MP	5.50	5.15	-6.4%	2,599.0	Y	12/2025	25.6	28.1	-21.9%	9.7%	21.5	19.6	1.3	6.0%	11.7	2.1%
POS MALAYSIA BHD	UP	0.250	0.150	-40.0%	199.6	Y	12/2025	(20.8)	(18.5)	-184.4%	-189.1%	N.A.	N.A.	0.9	-64.6%	0.0	0.0%
SWIFT HAULAGE BHD	UP	0.400	0.320	-20.0%	347.6	Y	12/2025	3.2	3.5	2.5%	8.9%	12.6	11.6	0.5	3.8%	1.6	4.0%
WESTPORTS HOLDINGS BHD	OP	5.54	6.00	8.3%	18,480.7	Y	12/2025	27.9	32.2	5.9%	15.5%	19.9	17.2	4.7	24.2%	20.9	3.8%
SECTOR AGGREGATE					**5,406.7**					**-49.5%**	**-38.8%**	**18.0**	**16.1**	**1.8**	**-7.7%**		**2.5%**

Source: Kenanga Research

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Technology

OVERWEIGHT ↑

Re-rating the Recovery

By Cheow Ming Liang I cheowml@kenanga.com.my; Tan Woon Pin / woonpin@kenanga.com.my

Global semiconductor sales rose >20% YoY in July 2025, led by Logic and Memory on robust data-centre spend and early AI-edge adoption. Incorporating the latest run-rate, WSTS has raised its 2025 market forecast to USD728b (+15.4% YoY) and projects USD800b (+9.9% YoY) in 2026, reinforcing our view that the current 21-month upcycle can extend into mid-2026 (or beyond) on structural AI, HPC, 5G, and next-gen smartphone drivers. In parallel, SEMI now expects front-end fab equipment spend to rise 6% in 2025 and 8% in 2026, a tailwind for Malaysian front-end foundry/equipment-exposed names. With autos recovering, underpinned by rising EV penetration, medium-term demand visibility for auto-exposed tech (including OSAT and automotive LEDs) is improving. In this context, we upgrade D&O, underpinned by a more constructive global auto cycle and structural uplift from EV penetration and higher software-defined vehicle content, which are driving greater LED requirements.Against a backdrop of resilient semiconductor momentum, accelerating AI/HPC-driven capex, firmer autos, and contained tariff risk, we upgrade our sector stance from NEUTRAL to OVERWEIGHT. Our top picks are KGB (OP, TP: RM6.15) and UWC (OP, TP: RM3.82) in front-end (high leverage to capex cycles), and Inari (OP, TP RM2.56) in OSAT, supported by expanding capabilities aligned to AI applications.

Global Semiconductor Sales – July sales have reclaimed the >20% YoY growth threshold, signalling not only resilience but also sustainability of the current up-cycle. Growth continued to be led by Logic and Memory on robust data-centre spending and early AI-edge adoption. Importantly, the clearer direction on global tariff policies has reduced trade uncertainty, reinforcing visibility into demand momentum. With structural tailwinds from AI, HPC, 5G, and next-generation smartphones, the present 21-month rally is showing no sign of fading. We believe the current cycle could extend beyond 30 months - the historical longest upcycle period - marking a potential new peak for the industry.

Budget 2026 View – We expect Budget 2026, scheduled for tabling on 10 October 2025, to deliver targeted support for Malaysia's semiconductor ecosystem in line with the NSS – potentially via incentives, talent programmes and enablement for advanced packaging/design. With >RM63b of investments already secured since launch, the government has identified 13 NSS-flagged champions across the value chain—including **Carsem, Inari, Pentamaster, ViTrox, KGB, Greatech**and several IC design firms (**Oppstar, SkyeChip, Infinecs, Experior**) that are well placed to benefit from favourable policies, subsidies, and capacity-building measures. We advise investors to focus on these names, where policy tailwinds and facilitation are most likely to be concentrated.

Auto Segment Recovery – The global auto outlook is turning more constructive, with EV penetration and software-defined features driving incremental content growth. China remains the largest market, Europe continued to benefit from decarbonisation-linked incentives, and U.S. demand is stabilising ahead of tax credit expiries. A firmer 4Q is anticipated as subsidies resume and seasonal demand improves, further supporting the recovery. This backdrop should benefit the broader automotive semiconductor and LED ecosystem. In Malaysia, **MPI** (auto test/OSAT exposure) and **D&O** (automotive LEDs) are well placed to ride the recovery, supporting improving utilisation, order visibility and medium-term earnings.

US Tariff Impact – Contained for Malaysia Tech – Our channel checks suggest recent tariff adjustments have had contained direct impact on Malaysian technology companies, as most players sit mid-to-downstream with low direct U.S. exposure. While 2QCY25 saw temporary headwinds due to order push-outs and uncertainty as customers revisited supply strategies, finalised tariff treatment has brought much-needed clarity. Importantly, we gathered that orders are now resuming, with minimal cancellations and costs largely passed through to clients. While we see reciprocity risk higher for some EMS exposures, customer pass-through remains the base case. We expect business operations to normalise in 3QCY25, improving earnings visibility across the sector.

Forex — manageable headwind, mixed by name. The Fed's September cut nudges the USD bias softer (with the path still data-dependent), which typically compresses MYR-reported margins for Malaysia's tech exporters. Based on latest disclosed sensitivities in annual reports, UWC screens as most exposed, while Unisem, D&O, PIE, Inari and MPI face smaller translation drags; LGMS and KGB appear only mildly affected, and Oppstar is broadly neutral. NATGATE stands out as a beneficiary (USD-cost/MYR-revenue), with SKP seeing modest gains.

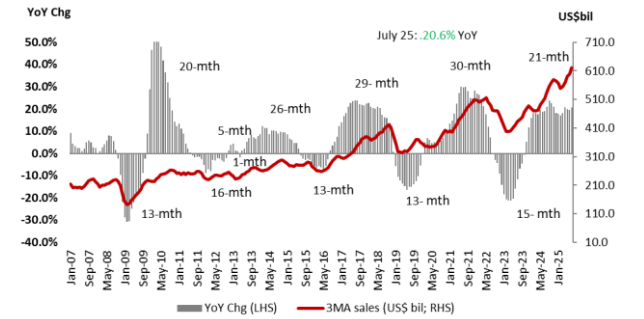
Valuation – We have refreshed valuations across our coverage to reflect the stronger industry backdrop. While sector multiples have re-rated alongside the global recovery, we continue to prefer front-end (FE) names on clearer earnings visibility. We also recalibrate OSAT valuations to reflect a transition from an early-cycle recovery to a firmer one, underpinned by improving sector outlook. Notable multiple changes include: KGB 30x (from 25x), Inari 32.2x (from 28.5x), Unisem 29.6x (from 23x), MPI 29.3x (from 26x), and D&O 30x (from 22x), while PIE is revised lower to 18.9x (from 21.6x) to reflect a c.10% discount to its peers such as NATGATE.Our top picks are **KGB (OP, TP RM6.15), UWC (OP, TP RM3.82),** and **Inari (OP, TP RM2.56),** given their leverage to capex-led growth and rising relevance in AI applications.

Global semiconductor sales momentum remained intact. Global semiconductor sales accelerated in July 2025,

rebounding to >+20% YoY after +19.7% YoY in June, which we believe was continually driven by Logic and Memory on sustained data-centre spend and early AI-edge demand. Incorporating the latest data, WSTS lifts its 2025 market forecast by 3.9% to USD728b (+15.4% YoY) as compared to its Spring 2025 forecast. All product lines were revised up, with Logic now at +29% YoY and Memory +17% YoY (+0.5pp each vs. prior forecasts). Regionally, growth remains broad-based: Americas and Asia Pacific lead; Europe firming; Japan slightly softer. Moving forward, WSTS remains upbeats on 2026 outlook and projects 2026 at USD800b (+9.9% YoY), with gains across regions and categories, led again by Memory, alongside Logic and Analog. Americas and Asia Pacific are set to continue outpacing, while Europe and Japan are seen strengthening.

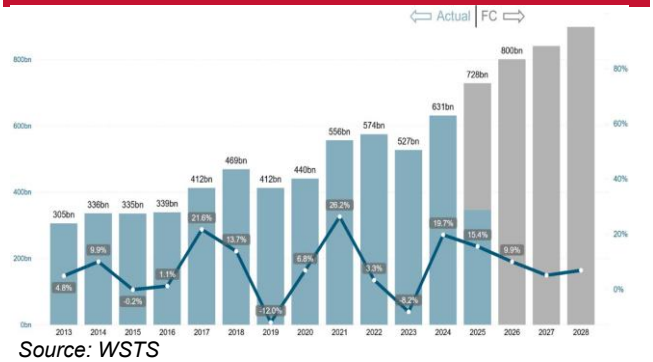
The current up-cycle, which began in November 2023, has reached its recent high in September 2024 (+23.7% YoY) and sustained strong double-digit growth through July 2025. Historically, semiconductor upcycles averaged 22 months (with the longest stretching to 30 months), suggesting that the ongoing 21-month rally is on track to break the historical average upcycle period and may extend into mid-CY26 or beyond, if historical trends hold. This cycle remains structurally supported by robust demand across AI adoption, high-performance computing (HPC), 5G proliferation, and next-generation AI smartphone upgrades which drive the need for advanced logic chips, GPUs, and AI accelerators.

Exhibit 1: Global Semiconductor Sales (% YoY)



Source: Kenanga, WSTS

Exhibit 2: Global semiconductor Market (USDb) Actual vs. Forecast



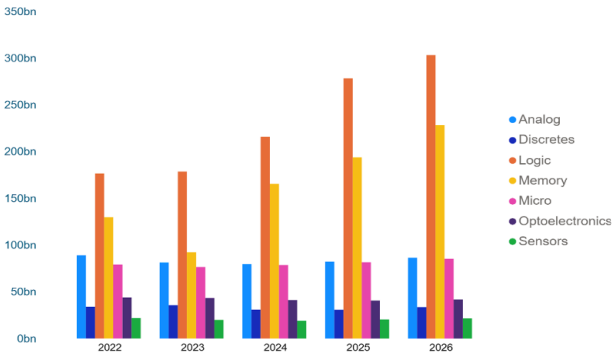
Source: WSTS

Exhibit 3: WSTS Forecasts

Segment Growth Y/Y	2023	2024	2025	2026
⊞ Discretes	4.5%	-12.7%	-0.6%	8.9%
⊟ IC	-9.7%	25.9%	17.9%	10.6%
⊞ Analog	-8.7%	-2.0%	3.3%	5.1%
⊞ Logic	1.1%	20.8%	29.0%	9.0%
⊞ Memory	-28.9%	79.3%	17.1%	17.8%
⊞ Micro	-3.5%	3.0%	3.9%	4.6%
⊟ Opto & Sensors	-4.2%	-4.6%	1.8%	3.6%
⊞ Optoelectronics	-1.6%	-4.8%	-1.1%	2.8%
⊞ Sensors	-9.4%	-4.1%	7.9%	5.3%
Total	-8.2%	19.7%	15.4%	9.9%

Source: WSTS

Exhibit 4: WSTS Forecasts



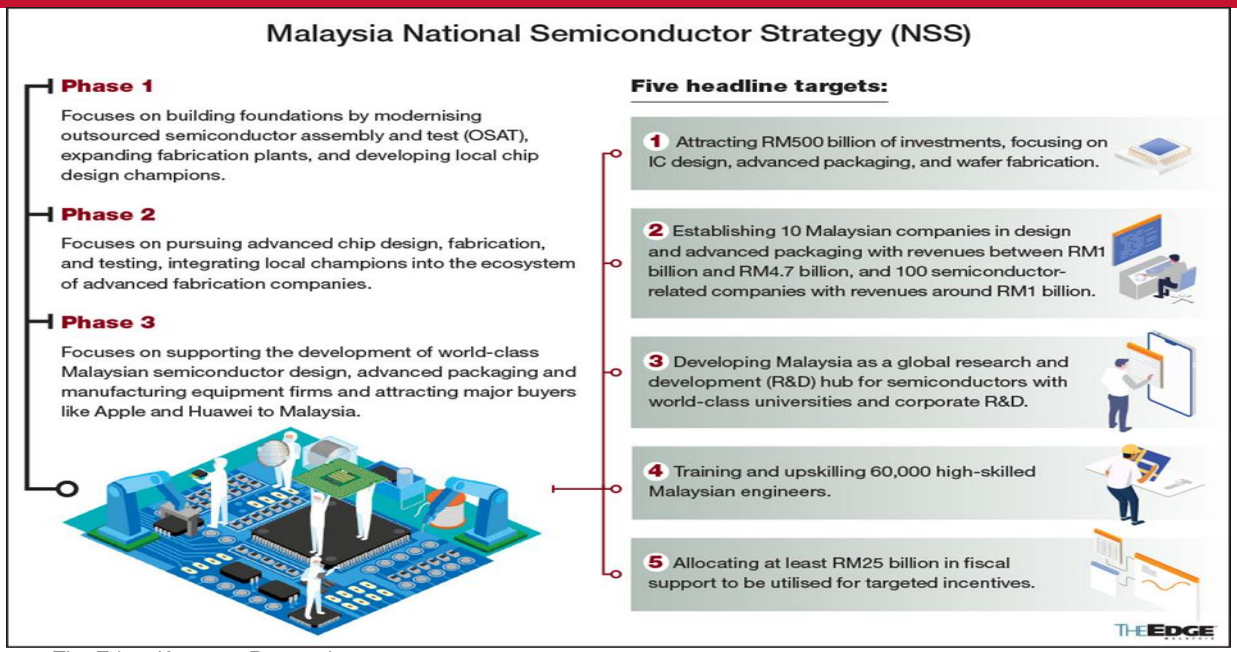
Source: WSTS

Budget 2026. We expect Budget 2026 to deliver targeted support for Malaysia's semiconductor ecosystem in line with the National Semiconductor Strategy (NSS) – potentially via subsidies, matching grants, and/or streamlined bureaucratic processes. Ground checks with several covered companies indicate policimakers are actively canvassing industry needs; an encouraging signal that incentives will be shaped around practical bottlenecks (design enablement, advanced packaging capacity, and talent). This dovetails with Malaysia's stated goal to crowd in private investment and move up the value chain under the NSS.

According to the recent news, Malaysia has secured >RM63b in semiconductor investments under the NSS as of March 2025, comprising RM58b FDI and RM5b DDI, less than a year after the May-2024 launch. Notable foreign-led wins under the NSS include NXP (semiconductor products), Infineon's world-largest 200mm SiC power fab in Kulim, Syntiant (MEMS microphone/sensor ops) and Plexus (manufacture/re-manufacture of PCBs). The government has identified 13 potential national champions across the value chain, among them **Carsem, Inari Amertron, Pentamaster, ViTrox and KGB Group**, along with four other players (including **Greatech** and other firms from the backend assmbly and test space). Four integrated circuit (IC) design and development firms (**Oppstar, SkyeChip, Infinecs, Experior**) also among the 13 companies with an aim to deliver more than 25% annual revenue growth.

To deepen local capacity, Malaysia is channeling catalytic capital and expanding market access. The administration has >RM2b in committed "crowd-in" capital (including support from Khazanah and KWAP under GEAR-uP, plus Bank Negara Malaysia and global partners) and will elevate semiconductor diplomacy to unlock new markets. On talent, RM1.2b over five years will build a pipeline aligned to the NSS target of ~60,000 engineers, led by CREST and HRD Corp. Longer-term NSS goals include nurturing 10 Malaysian firms with >US$1b revenue and 100 firms near RM1b.

Exhibit 5: Malaysia National Semiconductor Strategy (NSS)

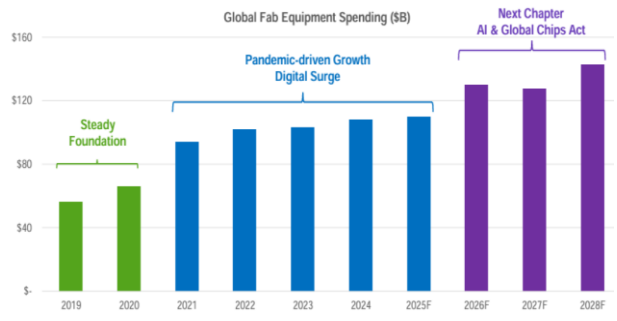

Malaysia National Semiconductor Strategy (NSS)
Phase 1
Focuses on building foundations by modernising outsourced semiconductor assembly and test (OSAT), expanding fabrication plants, and developing local chip design champions.
Phase 2
Focuses on pursuing advanced chip design, fabrication, and testing, integrating local champions into the ecosystem of advanced fabrication companies.
Phase 3
Focuses on supporting the development of world-class Malaysian semiconductor design, advanced packaging and manufacturing equipment firms and attracting major buyers like Apple and Huawei to Malaysia.
Five headline targets:
1 Attracting RM500 billion of investments, focusing on IC design, advanced packaging, and wafer fabrication.
2 Establishing 10 Malaysian companies in design and advanced packaging with revenues between RM1 billion and RM4.7 billion, and 100 semiconductor-related companies with revenues around RM1 billion.
3 Developing Malaysia as a global research and development (R&D) hub for semiconductors with world-class universities and corporate R&D.
4 Training and upskilling 60,000 high-skilled Malaysian engineers.
5 Allocating at least RM25 billion in fiscal support to be utilised for targeted incentives.
THE EDGE

Source: The Edge, Kenanga Research

Front-end fab outlook remains encouraging. SEMI's latest World Fab Forecast (Sep 5, 2025) points to a resilient capex cycle led by foundry and memory. Front-end fab equipment spending is projected to rise 6% to USD116b in 2025 (above June's projection) and a further 8% to USD125b in 2026. Foundry remains the largest bucket (c.USD61b in 2025; USD64b in 2026), with memory accelerating (USD37b in 2025; USD45b in 2026). Capacity adds are steady with foundry capacity +11% YoY in 2025 and +9% in 2026, while memory capacity expands 1.5% in 2025 and 2% in 2026. Though construction outlays ease (–36% to USD30b in 2025), they remain above pre-2022 levels - consistent with a multi-year buildout for AI and leading-edge nodes. Looking ahead, SEMI flags 41 new volume-fab construction projects (greenfield/shell; excludes expansions/R&D) with high probability to start between 2025 and 2030, on top of the 18 new fabs that SEMI expects to start construction in 2025 (primarily 300mm, with most entering production in 2026–2027).

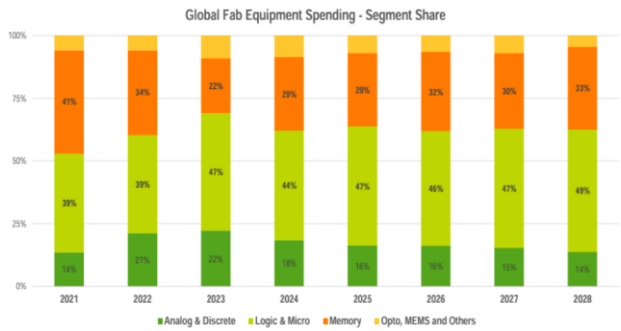
The constructive front-end outlook should bolster Malaysian front-end players' prospects, particularly **KGB,** a specialist in ultra-high-purity (UHP) process gas, chemical delivery systems and tool hook-ups for new fabs, and **UWC**, which supplies precision-engineered modules and provides systems integration for front-end wafer-fab equipment. This backdrop typically supports stronger order intake, a larger tender book, higher utilisation and improved revenue visibility.

Exhibit 6: Global Fab Equipment Spending (USDb)



Source: SEMI, Kenanga Research

Exhibit 7: Global Fab Equipment Spending – Segment Share

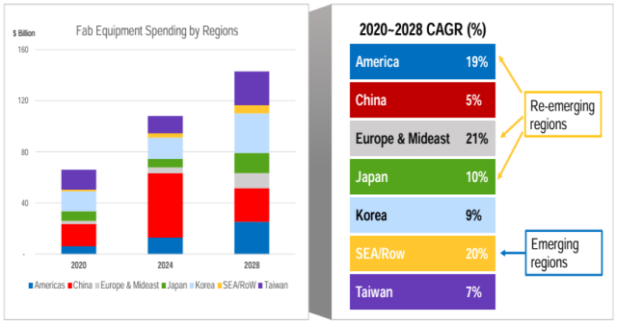


Source: SEMI, Kenanga Research

Exhibit 8: Semicon Fab Investment (Equipment & Construction Spending)

Exhibit 9: Top Spending Regions vs. Re-emerging and Emerging Regions

Source: SEMI, Kenanga Research



Source: SEMI, Kenanga Research

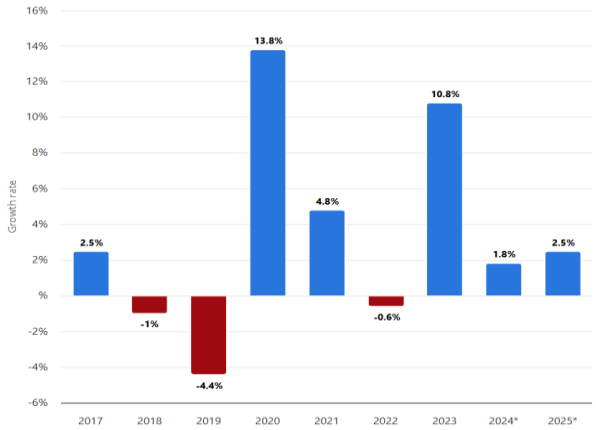
Automotive outlook . Global auto sales in 2025 look set for modest growth after a record 2024 with demand for EVs and software-defined features remains resilient, even as supply-chain frictions, shifting regulations and high base effects temper momentum. Global light-vehicle sales are projected at 89.6m units (+2.5% YoY), according toS&P Global Mobility.

YTD-July global auto sales reached nearly 50m units (+3.4% YoY), supported by firm EV demand, which climbed 27% YoY to 10.7m units and now accounts for c.21% of global volumes. By market, China remains the largest contributor (6.5m units, +29% YoY; 29% global share), though July sales eased 13% MoM despite a 12% YoY gain. Europe rose 30% YTD to 2.3m units, led by Germany and the UK, while the US delivered modest growth (+2.8% YoY; 19% share), with volumes likely to see a near-term bump ahead of the IRA consumer tax credit expiry on 30 Sep 2025. Japan also posted steady growth (+8.1% YoY; 5.3% share).

Looking ahead, a firmer 4Q is anticipated in the China market as subsidy funding resumes and seasonal demand improves. While BYD, the world's largest EV market, reduced its 2025 global sales target by 16% to 4.6m, Geely, Xpeng and Nio posted record EV/hybrid months, signalling share rotation among local brands. Elsewhere, US demand is firming ahead of expiring tax credits, while Europe continues to benefit from decarbonisation-linked incentives.

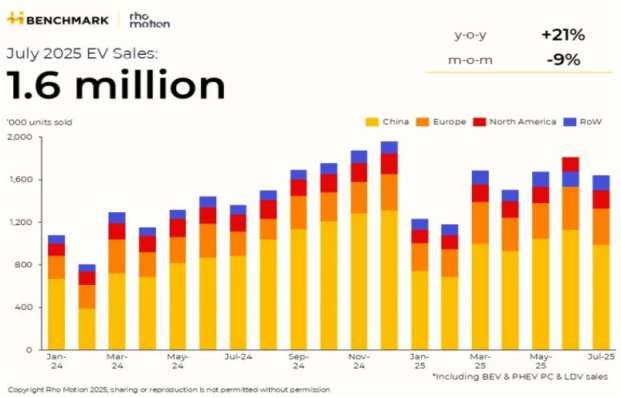
A constructive global auto backdrop should benefit the broader automotive ecosystem, including auto semiconductors and auto LEDs. In Malaysia, **D&O** (automotive LEDs) and **MPI** (auto test/OSAT exposure) are well-placed to ride the recovery, with rising EV penetration and software-defined vehicle content supporting medium-term demand visibility.

Exhibit 10: Worldwide light vehicle sales growth outlook 2017-2025



Source: Statista, Kenanga Research

Exhibit 11: July 2025 EV sales

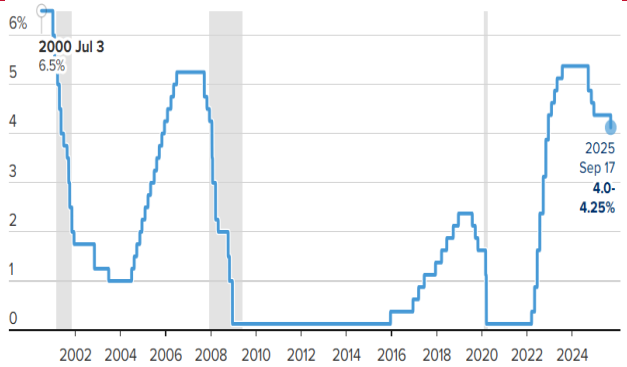


Source: Rho Motion, Kenanga Research

Fed cut — USD bias softer, but path data-dependent. The Fed in its September 2025 meeting trimmed the funds rate by 25bps to 4.00–4.25%, signalling the start of a measured easing cycle. A softer labour-market tone and Chair Powell's nod to rising downside employment risks pushed the USD initially lower and kept markets pricing two more cuts this year - broadly consistent with a dovish-leaning dot plot (nine officials flag two further cuts; six see none). Medium-term projections imply confidence that easing can cushion jobs without re-accelerating inflation. Our economics team pencils in two additional 25bps cuts in 2025 and potentially two in 2026, taking the policy rate towards ~3.25%. Risks skew to more easing if growth falters (e.g., tariff drag), but execution remains data-dependent.

FX sensitivities indicate USD weakness is broadly negative for Malaysia's tech exporters as MYR translation compresses margins. Based on the stocks that under our stock universe latest annual reports, UWC is the most exposed (PAT –28%/–57% on a -5%/-10% USD decline), followed by Unisem (–8%/–15%), D&O (–8%/–15%), PIE (–6%/–12%), Inari (–5%/–10%), and MPI (PBT –4%/–9%), with smaller drags for LGMS (–1%/–2%) and KGB (–1%/–2%). Oppstar is roughly neutral (0%/–1%). Notably, Natgate is an outlier beneficiary (PBT +11%/+21%) given its USD-cost/MYR-revenue profile, while SKP sees modest gains (+2%/+4%). All in, sustained USD softness post-Fed rate cut is a sector headwind, with Natgate likely be the key winner.

Exhibit 12: US Federal Funds Rate since 2000



Source: US Fed, CNBC, Kenanga Research

Exhibit 13: USD/MYR sensitivities

Implied		USD weakened by	
		5%	10%
Oppstar	PAT	0%	-1%
Inari	PAT	-5%	-10%
Unisem	PAT	-8%	-15%
MPI	PBT	-4%	-9%
SKP	PBT	2%	4%
PIE	PAT	-6%	-12%
Natgate	PBT	11%	21%
D&O	PAT	-8%	-15%
LGMS	PAT	-1%	-2%
KGB	PAT	-1%	-2%
UWC	PAT	-28%	-57%

Source: Companies, Kenanga Research

US tariff impact— contained for Malaysia tech. Most Malaysian players sit mid/downstream with low direct US exposure, so the overall impact should be contained. Our recent ground checks (see Exhibit 14) indicate cost pass-through will predominate with **NATGATE, SKPRES, ATECH, EG, NE, SFPTECH, SAM**, and **Greatech** expecting customers to absorb tariff costs; **PIE** flags possible cost-sharing with a key client. **UWC** sees some exposure in life sciences (c.15% of end-products to the US) with likely shared costs, while **SAM**'s US-bound aerospace products is low risk as FTZ-qualified customers should bear the charges.

Tariff treatment for OSAT/ATE remains contained so far. MPI's risk appears negligible (c.6% US revenue; negotiations ongoing), Unisem is largely insulated (ex-factory/local consumption), Inari reports no impact, while ViTrox/Pentamaster cite low US exposure with no cost-sharing requests. All in all, we believe the EMS segment will likely face higher reciprocity risk given assembly links, though most indicate incremental costs would be passed to clients.

Exhibit 14: Key takeaways from recent ground checking on tariff impact

Subsector	Company	Remark
EMS	NATGATE	Likely will be borne by customers
EMS	SKPRES	Any tariff impact would likely be borne by customers
EMS	ATECH	No cost sharing is expected; expenses will be borne by customers.
EMS	PIE	Customer A likely to seek cost sharing; the rest of the clients are still under negotiation
EMS	EG	No cost sharing is expected
Fabricator	NE	No cost sharing is expected; expenses will be borne by customers.
Fabricator	Wentel	Tariff costs are likely to be borne by customers, and existing forecasts remain unchanged
Fabricator	UWC	The life sciences segment may be impacted, with costs likely to be shared. Approximately 15% of end products are destined for the US
Fabricator	SFPTECH	No cost sharing is expected; expenses will be borne by customers.
Fabricator	SAM	Exposure is mainly on aerospace with equipment outside the US; no impact expected as the customer is FTZ-qualified and will bear any costs
OSAT	MPI	Effective impact currently negligible as costs are being negotiated with customer, with its US exposure at 6% of revenue
OSAT	Unisem	Minimal direct impact as most goods are sold ex-factory and consumed locally
OSAT	Inari	No impact is expected.
ATE	Penta	No cost-sharing requests from customers; awaiting clarity on semiconductor tariffs.
ATE	Greatec	Tariff costs are borne by customers. For the current shipment, negotiations with a US auto customer are ongoing, but going forward such costs will be absorbed by customers
ATE	Vitrox	Per management, direct US exposure is limited (~10%), and even with cost sharing, the impact would be in the low single digits

Source: Companies, Kenanga Research

Valuations. We hae updated valuations for selected names in our coverage to reflect the latest industry backdrop (see exhibit 17 & 18). Key changes are as follows:

KGB – We lift our TP to RM6.15 (from RM5.15), anchored to a higher 30x FY26 PER (from 25x), in line with +1SD of KLTECH's 5-year forward PER. We believe the multiple expansion is justified by: (i) consistent earnings delivery, (ii) a robust tender book translating into improving revenue visibility, and (iii) progressive margin expansion. Execution strength is evidenced by recent wins across geographies and end-markets such as RM244m ultra-high-purity (UHP) projects in Europe (Aug) and a further RM216m (Sep) comprising RM108m engineering works for an advanced packaging facility in Singapore and RM108m for an automated storage & retrieval system plus external infrastructure works in Penang. We reiterate our OUTPERFORM call on KGB

OSAT — We raise target prices across our OSAT coverage by applying a higher target multiple of 29.3x PER (from 26.0x). The multiple expansion reflects improved industry visibility following the U.S. concluding tariff arrangements with most trading partners, which in our view shifts the cycle towards recovery. Additionally, sustained double-digit YoY growth in

global semiconductor sales and a constructive global auto backdrop should support the broader value chain, including assembly, test and packaging players.For context, our previous 26x anchor referenced a peer-blended PER, reflecting both the escalating trade tensions under the first Trump administration in FY19, blended with the valuations during a recovery phase as initial trade-war shocks eased in FY20. Our revised valuation now reflects the latter, which re-rates the OSAT sector to 29.3x. (from 26.0x) (see Exhibit 15-16).

Exhibit 15: OSAT's Fwd PER (Average)

Semiconductor Players' Forward PER (Average)				
	FY17	FY18	FY19	FY20
Inari	21.0	25.1	25.8	36.7
MPI	15.1	14.1	14.0	16.1
Unisem	15.5	25.2	27.0	35.1
Simple average			**22.5**	**29.3**
Blended average				**25.9**

Source: Bloomberg, Kenanga Research

Exhibit 16: OSAT's Fwd PER (Low)

Semiconductor Players' Forward PER (Low)				
	FY17	FY18	FY19	FY20
Inari	18.1	18.1	15.2	17.2
MPI	8.8	8.1	11.6	12.4
Unisem	10.8	7.8	14.6	31.7
Simple average			**13.8**	**20.4**
Blended average				**17.1**

Source: Bloomberg, Kenanga Research

D&O – We raise our TP to RM1.61 (from RM1.45) after lifting our target multiple to 30x FY26 PER (from 22x), aligned with +1SD of KLTECH's 5-year forward PER. The higher PER is justified by a more constructive global auto cycle and the structural uplift from rising EV penetration and software-defined vehicle content, which expand LED requirements. With its strong positioning in automotive LEDs, we believe D&O is well placed to benefit from the recovery, underpinning improved medium-term demand visibility. We upgrade our call to OUTPERFORM (from MARKET PERFORM).

Exhibit 17: Revised TPs and Valuation Methdologies

	TP	Rating	Last Price @ 23 Sep	Upside	Valuation
OPPSTAR	0.50	MP	0.565	-12%	Based on an unchanged 36x FY27F PER, at about 10% discount to the mean forward PER of its peers to reflect OPPSTAR's significantly smaller size and more limited capabilities vs. its global counterparts
INARI	2.56	OP	2.16	19%	Based on a 32.2x (vs. 28.5x previously) FY26, an unchanged 10% premium on peer's forward mean, justified by the company's superior net margins of >20%, (vs. peers of single digit). Our TP imputes a 5% premium to reflect its 4-star ESG rating.
UNISEM	1.56	UP	2.72	-43%	Based on an higher PER of 29.6x (vs. 23x previously) pegged to FY26F EPS, in line with its peers' average
MPI	27.60	MP	29.50	-6%	Based on an higher 29.3x (vs. 26x previously) CY26 PER, in line with peer's forward average.
SKP	1.24	OP	0.94	32%	Based on an unchanged targeted 14.4x FY26F EPS. The valuation reflects the uptrend in peer's forward mean but we still retain a c.10% discount as the group still lacks customer diversity compared to peers.
PIE	3.37	MP	2.95	14%	Based on an adjusted 18.9x (vs. 21.6x previously) FY26 PER, a 10% discount to AI-related peer such as NATGATE
NATGATE	1.62	OP	1.30	25%	Based on a unchanged 21x FY25 PER, a 20% premium to peers fwd mean, justified by the group's favourable exposure to the fastgrowing networking product segment, and its advanced capabilities which yield better margins as well as enhancing customer stickiness.
D&O	1.61	OP	1.48	9%	Based on higher 30x (vs. 22x previously) FY26 PER, in line with +1SD of KLTECH 5-year fwd PER (implied D&O 5-year mean). Our previous 22x was based on its ATE peers' fwd PER average (Penta, Elsoft, MI).
LGMS	0.86	MP	0.84	2%	Based on an unchanged 30x FY26 PER, in line with global peers' fwd mean, such as Qualys, Fortinet, and Akamai Technologies
KGB	6.15	OP	5.38	14%	Based on higher 30x (vs. 25x previously) FY26 PER, in line with +1SD of KLTECH 5-year fwd PER. We believe the multiple expansion is justified by: (i) consistent earnings delivery, (ii) a robust tender book translating into improving revenue visibility, and (iii) progressive margin expansion
UWC	3.82	OP	3.63	5%	Based on an unchanged 33x CY26 PER, slightly below its 5-year average mean PER of 35.7x

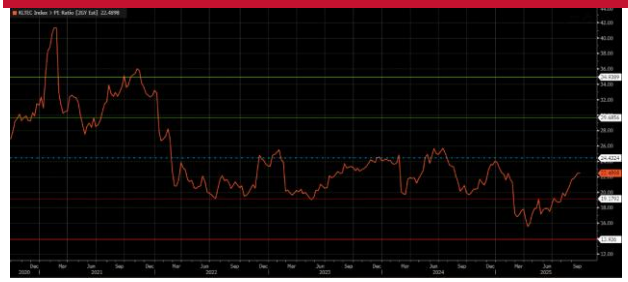
Source: Kenanga Research

Exhibit 18: Previous TPs and Valuation Methdologies

	TP	Rating	
OPPSTAR	0.50	MP	Based on an unchanged 36x FY27F PER, at about 10% discount to the mean forward PER of its peers to reflect OPPSTAR's significantly smaller size and more limited capabilities vs. its global counterparts
INARI	2.25	MP	Based on a 28.5x FY26, an unchanged 10% premium on peer's forward mean, justified by the company's superior net margins of >20%, (vs. peers of single digit). Our TP imputes a 5% premium to reflect its 4-star ESG rating.
UNISEM	1.23	UP	Based on an unchanged PER of 23x pegged to FY26F EPS, in line with its peers' average
MPI	24.50	MP	Based on an unchanged 26x CY26 PER, in line with peer's forward average.
SKP	1.24	OP	Based on an unchanged targeted 14.4x FY26F EPS. The valuation reflects the uptrend in peer's forward mean but we still retain a c.10% discount as the group still lacks customer diversity compared to peers.
PIE	3.85	MP	Based on a targeted 21.6x FY26 PER, a 10% discount to AI-related peer such as NATGATE
NATGATE	1.62	OP	Based on a unchanged 21x FY25 PER, a 20% premium to peers fwd mean, justified by the group's favourable exposure to the fastgrowing networking product segment, and its advanced capabilities which yield better margins as well as enhancing customer stickiness.
D&O	1.18	MP	Based on an unchanged 22x FY26 PER, in line with its ATE peers' fwd PER average (Penta, Elsoft, MI).
LGMS	0.86	MP	Based on an unchanged 30x FY26 PER, in line with global peers' fwd mean, such as Qualys, Fortinet, and Akamai Technologies
KGB	5.15	OP	Based on an unchanged 25x FY26 PER, in line with its global players such as Air Products, Air Liquide and Linde.
UWC	3.82	OP	Based on a 33x CY26 PER, slightly below its 5-year average mean PER of 35.7x

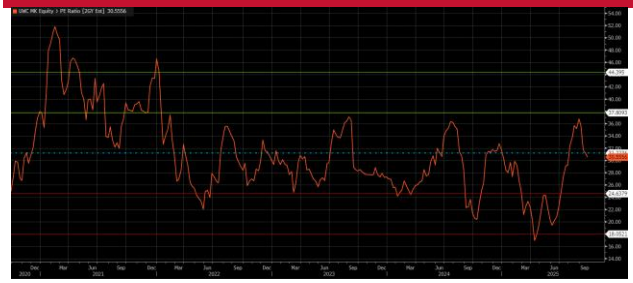
Source: Kenanga Research

Exhibit 19: KLTEC 5-year PER Band



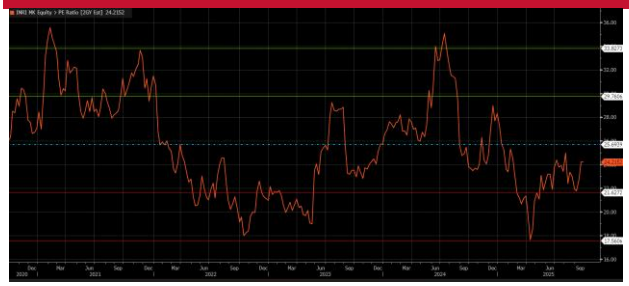
Source: Bloomberg, Kenanga Research

Exhibit 20: UWC 5-year PER Band



Source: Bloomberg, Kenanga Research

Exhibit 21: INARI 5-year PER Band



Source: Bloomberg, Kenanga Research

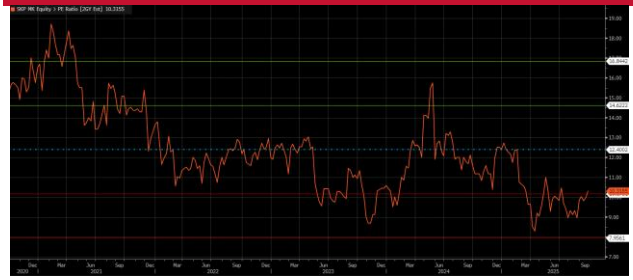
Exhibit 22: MPI 5-year PER band

Source: Bloomberg, Kenanga Research

Exhibit 23: UNISEM 5-year PER Band

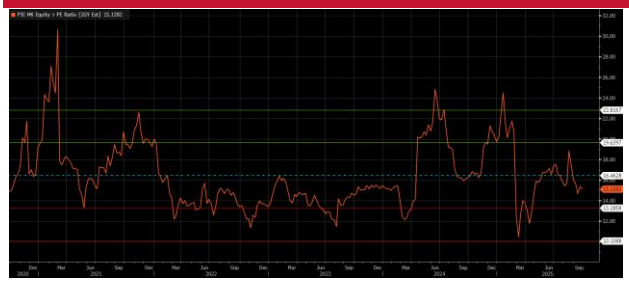
Source: Bloomberg, Kenanga Research

Exhibit 24: SKP RESOURCES 5-year PER Band



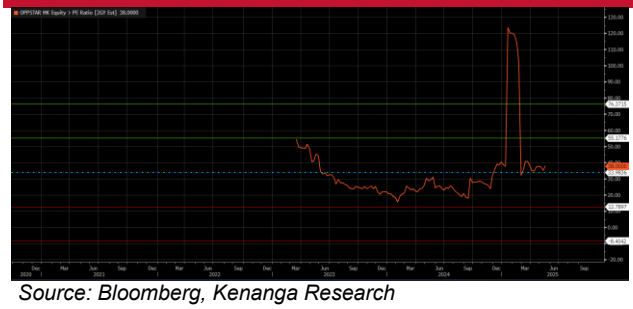
Source: Bloomberg, Kenanga Research

Exhibit 25: PIE 5-year PER Band



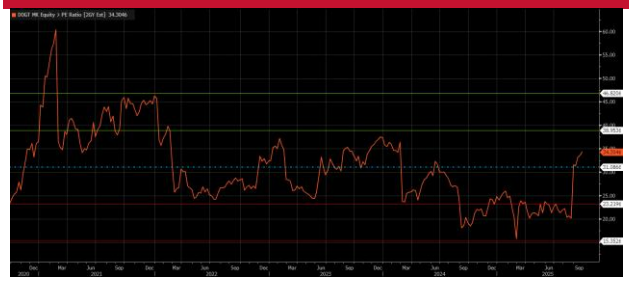
Source: Bloomberg, Kenanga Research

Exhibit 26: OPPSTAR 5-year PER Band



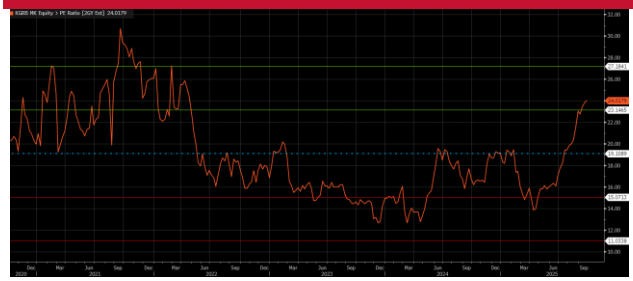
Source: Bloomberg, Kenanga Research

Exhibit 27: D&O 5-year PER Band



Source: Bloomberg, Kenanga Research

Exhibit 28: KGB 5-year PER Band

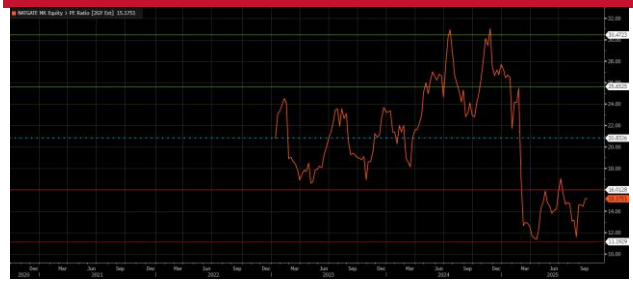


Source: Bloomberg, Kenanga Research

Exhibit 29: LGMS 5-year PER Band

Source: Bloomberg, Kenanga Research

Exhibit 30: NETGATE 5-year PER Band



Source: Bloomberg, Kenanga Research

Malaysian Technology Peers Comparison

Name	Rating	Last Price @ 29 Sept(RM)	Target Price (RM)	Upside	Mkt Cap (RM m)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) – Core Earnings		PBV (x)	ROE	Net. Div. (sen)	Net. Div. Yld
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
D&O GREEN TECHNOLOGIES BHD	MP	1.38	1.61	-14.5%	1,710.5	Y	12/2025	2.5	5.4	-22.3%	116.6%	55.7	25.7	1.8	3.3%	1.0	0.7%
INARI AMERTRON BHD	MP	2.08	2.56	8.2%	7,881.1	Y	06/2026	7.6	8.2	12.4%	8.0%	27.5	25.5	2.8	10.4%	7.0	3.4%
KELINGTON GROUP BHD	OP	5.48	6.15	-6.0%	4,238.3	Y	12/2025	21.1	20.5	29.6%	17.1%	26.0	26.7	6.1	27.5%	11.0	2.0%
LGMS BHD	MP	0.815	0.860	5.5%	371.6	Y	12/2025	2.3	2.9	-15.4%	25.0%	35.7	28.6	3.8	10.8%	2.0	2.5%
MALAYSIAN PACIFIC INDUSTRIES	MP	29.10	27.60	-15.8%	5,802.5	Y	06/2026	88.1	100.3	14.0%	13.8%	33.0	29.0	2.7	8.2%	35.0	1.2%
NATIONGATE HOLDINGS BHD	OP	1.23	1.62	31.7%	2,801.0	Y	12/2025	7.2	7.7	-6.1%	6.7%	17.0	15.9	2.7	16.9%	2.0	1.6%
OPPSTAR BHD	MP	0.525	0.500	-4.8%	336.7	Y	03/2026	0.9	1.4	-51.6%	50.0%	56.0	37.4	2.4	4.4%	1.0	1.9%
PIE INDUSTRIAL BHD	MP	3.13	3.37	23.0%	1,202.1	Y	12/2025	14.1	17.8	1.7%	26.9%	22.3	17.5	1.7	8.2%	0.0	0.0%
SKP RESOURCES BHD	OP	0.930	1.24	33.3%	1,453.0	Y	03/2026	8.6	9.2	13.9%	6.3%	10.8	10.1	1.2	12.0%	0.0	0.0%
UNISEM (M) BHD	UP	2.80	1.56	-56.1%	4,516.6	Y	12/2025	3.8	5.3	2.0%	38.8%	73.0	52.6	2.1	2.8%	8.0	2.9%
UWC BHD	OP	3.62	3.82	5.5%	3,992.5	Y	07/2026	10.0	13.9	172.6%	38.8%	36.1	26.0	6.8	20.7%	0.0	0.0%
SECTOR AGGREGATE					**34,305.9**					**17.2%**	**18.1%**	**28.7**	**24.3**	**3.1**	**11.4%**		**1.5%**

Source: Kenanga Research

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Telecommunication

NEUTRAL
↔

5G Policy: Progressing, but Uncertainty Remains

By Kylie Chan Sze Zan I kyliechan@kenanga.com.my

We retain our NEUTRAL stance on the telecommunication sector amid persistent uncertainty surrounding Malaysia's 5G Dual Network (5GDN) framework. On a more positive note, DNB's recent shareholder funding in Aug signals progress and could pave the way for eventual finalisation of 5GDN. Meanwhile, we await the outcome of DNB's restructuring (initiated in Feb) which should better position it for an eventual takeover by its remaining mobile network operator (MNO) shareholders.

U Mobile's 5G launch in Aug marks a milestone, preluding the finalization of deployment plans for Malaysia's second 5G network (NW2). This bodes well for our preferred NW2 play, namely OCK (MP; TP: RM0.39). However, rollout momentum may remain sluggish given NW2's initial focus on in-building coverage (IBC), which is typically delayed by permit requirements and restricted working hours.

For fixed-line players, we expect rising demand for international and terrestrial connectivity (e.g. managed wavelength, HSBA, IRU, dark & lit fiber) as hyperscale data centers and cloud regions in Malaysia require links to internet exchange points, submarine cables, and global digital ecosystems. Ourtop pick is TIMECOM (OP; TP: RM5.91).

1. Mobile

Expect more newsflow on DNB. In Aug, Digital Nasional Berhad (DNB) secured an additional RM116.7m in cash advances from each of its MNO shareholders: **CDB (OP; TP: RM4.19), MAXIS (MP; TP: RM3.56), and YTLPOWR (OP; TP: RM4.66).** This raises their individual investments in DNB to RM350m each, while their respective ownership stakes remain unchanged at 19.44%. Key terms of the advances include: (i) non-interest bearing, (ii) non-repayable on demand, and (iii) recognized as prepayments under the MNOs' access agreements with DNB. On the other hand, the Ministry of Finance (MoF), which holds 41.7% shareholding, will not need to inject further funds as its obligations are already met via an existing RM450m loan to DNB - now pared down to RM199.8m after this round. We see this latest injection as providing short-term liquidity support for DNB while lowering its interest burden through the reduced MoF loan. Nevertheless, further advances from the MNOs cannot be ruled out.

DNB developments will progress 5GDN policy. Going forward, we anticipate further news flow surrounding DNB, that will reflect steady progress and facilitate the government's rollout of the 5GDN framework. A key milestone will be updates on DNB's corporate restructuring exercise (initiated in Feb 2025), which encompasses a full overhaul of its business model, financing approach, and operational structure. This effort involves close collaboration between DNB, its shareholders, and external advisers to ensure the company's sustainability over the long term. With the latest round of shareholder funding and the restructuring underway, DNB is expected to be better positioned for an eventual takeover by its remaining MNO shareholders. In Sept 2025, Digital Minister Gobind Singh Deo reaffirmed that once the government divests its stake in DNB, all of the company's liabilities will be fully borne by the MNOs that remain as shareholders. Apart from the government's RM500m equity injection in 2021, DNB's liabilities include:(i) RM450m shareholder loan from MoF (received in May 2023), (ii) RM800m receivables purchase agreement in 2021, and (iii) government-guaranteed loan of RM1.5b in 2023.

U Mobile finally kick-started 5G rollout. U Mobile, Malaysia's second 5G operator after DNB, launched its 5G services in Aug 2025 under its ULTRA5G brand at Berjaya Times Square, Kuala Lumpur and along the Penang Bridge. U Mobile's network runs on a full 5G standalone (SA) architecture from the outset, leveraging both the 3.5GHz and 700MHz spectrum bands. The group plans to deliver end-to-end 5G connectivity across more than 170 buildings nationwide over the first year and surpass 600 buildings within four years. Its nationwide rollout will prioritise high-traffic and strategic venues such as airports, hospitals, convention centres, and other key indoor and outdoor sites. To-date, equipment has been deployed in over 70 buildings, while installations are ongoing at major airports including KLIA, Kota Kinabalu International Airport, and Langkawi. Deployment progress is currently ahead of plan, with the group aiming to reach 80% coverage of populated areas (CoPA) by 2HCY26, before ramping up to 90% by the following year. U Mobile is executing the rollout through partnerships with Huawei in Peninsular Malaysia and ZTE in East Malaysia.

NW2 rollout will focus on buildings during initial phase. Given U Mobile's emphasis on buildings in its preliminary rollout phase, we anticipate the group will gradually award IBC contracts to its official preferred partners, including **AXIATA (MP; TP: RM2.70)** and **OCK**. To date, **OCK** has secured contracts worth RM15m-RM18m from U Mobile, covering around 20 sites, with rollout beginning in mid-August at hospital locations. As these projects reach completion, OCK expects additional IBC awards to be dished out on a periodic basis. That said, IBC deployments typically require longer timelines (c.6 months) due to the need to secure approvals from building operators and restricted working hours at locations such as hospitals and shopping malls. Consequently, we expect contract flows for NW2 to be relatively sluggish in the near term, trickling in gradually over time.

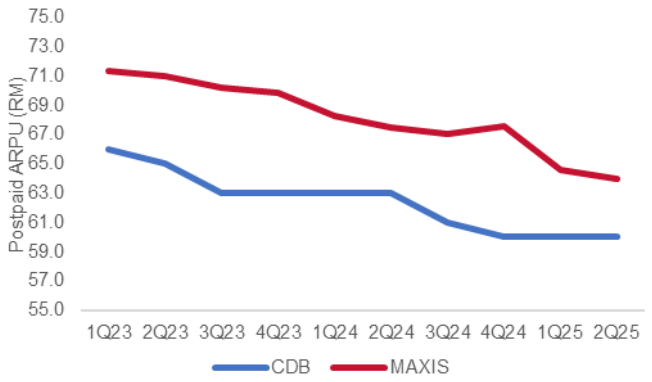
NW2 awards likely to pickup after rollout plans are finalized. Industry sources indicate that U Mobile is also upgrading and co-locating 5G equipment at existing 4G tower sites that currently host DNB's network. As of mid-July, approximately 2,000 4G site upgrades have been completed. Looking ahead, we expect NW2 contract momentum to pick up once U Mobile finalises its comprehensive deployment plans, which will likely include awards for wider scope of works, including greenfield build-to-suit (BTS) sites and the rollout of fibre backhaul infrastructure. We estimate that c. 20% of NW2's targeted 7,000 sites (c.1,400) will comprise BTS sites, creating opportunities for tower companies such as **OCK, AXIATA** (via Edotco), and **REACHTEN (NOT RATED).**

Meanwhile, **TM(OP; TP: RM8.15)** is expected to begin recognising revenue from its RM2.4b fibre backhaul contract with U Mobile by end-FY25, although the actual ramp-up hinges on NW2's rollout schedule. Additionally, we believe U Mobile may award backhaul contracts for the remaining 30% of its 5G sites not covered by **TM** to **TIMECOM**, following an MoU signed in July 2024 to jointly develop customised fibre backhaul solutions for NW2. As deployments scales, we also anticipate engineering firms such as **REDTONE (NOT RATED)**, **HEXCAP (NOT RATED)**, and **THETA (NOT RATED)** to be engaged for network contracting works. Notably, **OCK** is in advanced negotiations with NW2's technology vendors for potential collaboration in deploying 5G infrastructure with prospective contract value exceeding RM500m.Given that OCK is leveraged toward multipleopportunitiesoffered by NW2 (e.g. tower leasing, network deployment including IBC works), it stands as our preferred NW2 play. Furthermore, NW2 contract awards are expected to provide a meaningful uplift to OCK's orderbook and earnings, particularly given its smaller base relative to larger peers (eg. TIME, TM, AXIATA).

Expect postpaid to remain as sturdy earnings anchor. We anticipate continued momentum in postpaid net adds in 4QCY25 as MNOs drive adoption through high-value bundled convergence offerings aimed at reinforcing the stickiness of its postpaid base. The shift in focus toward convergence is evident from **CDB**'s recent move to emphasise ARPA (average revenue per account) rather than ARPU, reflecting the greater lifetime value of converged customers. In line with this strategy, MNOs are increasingly offering discounts and competitive pricing on home fibre services, rather than on postpaid plans. We believe this approach will support sustained customer acquisition while helping postpaid ARPUs remain resilient.

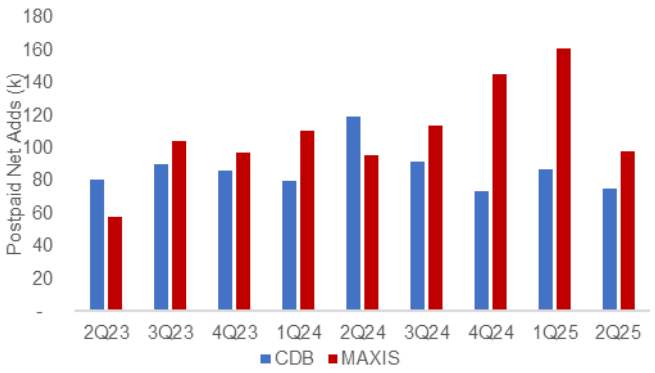
Prepaid ARPUs should be resilient after having bottomed out. In contrast, we expect prepaid net adds to remain weak and volatile, driven by: (i) persistent competition from MVNOs (e.g., TM) and U Mobile, and (ii) MNOs prioritising marketing resources toward postpaid and convergence subscribers. On a more positive note, we anticipate the recovery in prepaid ARPUs seen in 2QCY25 to sustain, as prior price discounts appear to have reached their limit and proven unsustainable. In addition, we believe pre-to-post migration trends have largely tapered off, with most price-sensitive users likely having converted since the introduction of entry-level postpaid plans in 2018.

Postpaid ARPU



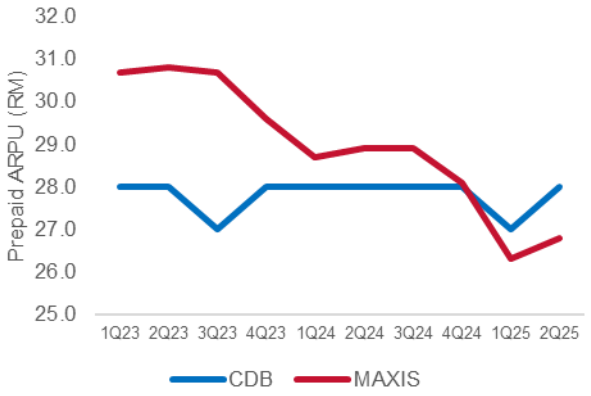
Source: Companies, Kenanga Research

Postpaid Net Adds



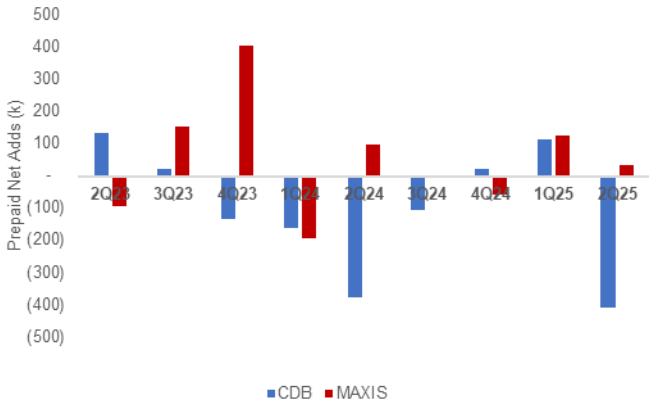
Source: Companies,Kenanga Research

Prepaid ARPU



Source: Companies,Kenanga Research

Prepaid Net Adds



Source: Companies, Kenanga Research

2. FIXED

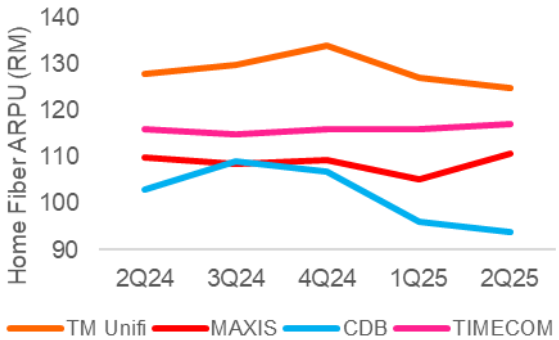
Anticipate home fiber market to gradually stabilize. We project sustained, albeit modest net adds in the home fibre market, underpinned by new entry-level offerings such as **CDB**'s fixed wireless access and **TM**'s lower-priced packages. While this will sustain subscriber growth, intensifying competition is likely to dilute net adds, particularly for incumbent **TM**, and lead to more rationalized pricing as discounting reaches its limits .Meanwhile, we anticipate quarterly home fibre ARPUs to stabilise, supported by a more disciplined pricing stance from MNOs. This is aimed at preserving margins and preventing earnings drag from the home fibre segment, which profit contribution to MNOs have now grown in significance following its recent scale-up.

Booming investments in hyperscale data centers present opportunities. Global hyperscalers (e.g. Alibaba Cloud, AWS, Microsoft Azure, Google Cloud) and content providers (e.g., Netflix, Meta, ByteDance) continue to deepen their presence in ASEAN through cloud regions, hyperscale data centers (DC) and edge nodes in markets such as Singapore, Malaysia, and Thailand. We expect further expansion to support rising demand for cloud, content delivery, and AI workloads. The region's cost-competitiveness, resource availability, growing digital population, and supportive policies are likely to attract new entrants and further investment, spurring sustained growth in digital infrastructure.

Expect higher demand for international & terrestrial fiber connectivity. To operate effectively, digital infrastructures built by hyperscalers require seamless global and domestic connectivity. While Tier-1 hyperscalers operate their own global backbones, smaller hyperscalers and most content providers rely on domestic carriers (e.g. **TM** and **TIMECOM**) for global internet access via submarine cables. This reliance fuels demand for these carriers' international services, including managed wavelength, Indefeasible Right of Use (IRU) agreements, and IP transit.

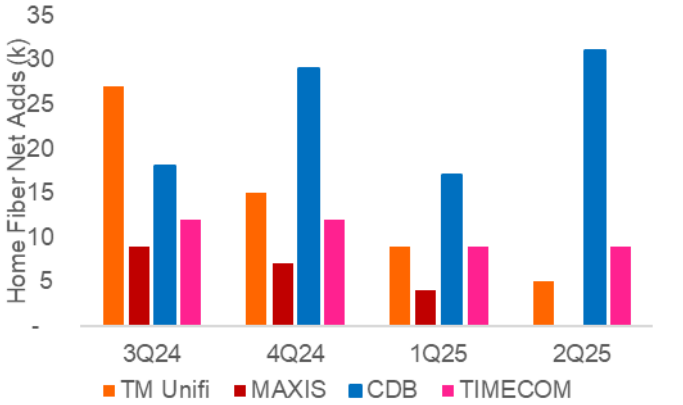
On the other hand, due to licensing and operational complexities in ASEAN, hyperscalers rarely deploy their own terrestrial networks. Hence, they procure last-mile and interconnection services from domestic carriers, ranging from colocation at submarine cable landing stations (SCLS) to cross-border fiber links (eg.dark & lit fiber leasing, DC-to-DC connectivity, and managed wavelength).

Home Fiber ARPU



Source: Companies, Kenanga Research

Home Fiber Subscriber Net Adds



Source: Companies,Kenanga Research

3. SUMMARY

We maintain a **NEUTRAL** view on the telecommunications sector given the lack of clarity over the implementation mechanism of Malaysia's 5G Dual Network (5GDN) framework. How the MNOs ultimately align between NW2 and DNB's existing network will be a key determinant of sector earnings, capex commitments, and dividend sustainability. In the meantime, we prefer fixed-line operators, which are less exposed to near-term policy risks, including 5GDN. On a more positive note, potentially higher shareholder returns could support sector sentiment with both **TIMECOM** and **MAXIS** possibly sustaining special dividends in FY25. This is underpinned by muted 5G capex requirements and a stronger focus on balance sheet optimization (for **TIMECOM**).

Our top pick is **TIMECOM** due to: (i) it being well positioned to fulfil the interconnection needs of hyperscalers and expansion across ASEAN by providing cross border as well as middle and last-mile fibre connectivity, (ii) its associate, AIMS which is actively scaling data centre capacity into new regional markets - allowing it to tap into accelerating co-location demand driven by tightening data residency regulations, (iii) it standing to gain from increasing cloud and connectivity needs among local enterprises undergoing digital transformation, and (iv) potentially higher dividend payouts from planned balance sheet optimization initiatives.

Peer Comparison

Name	Rating	Last Price as of 21 Mar (RM)	Target Price (RM)	Upside	Market Cap (RM m)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	NetDiv. (sen)	Net Div. Yld.
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
AXIATA GROUP BHD	MP	2.71	2.70	-0.4%	24,892.6	Y	12/2025	5.2	5.5	-44.2%	5.7%	52.4	49.5	1.4	1.2%	11.0	4.1%
CELCOMDIGI BHD	OP	3.79	4.19	10.6%	44,462.4	Y	12/2025	14.4	16.1	-5.8%	11.6%	26.3	23.6	2.7	10.4%	12.0	3.2%
MAXIS BHD	MP	3.68	3.56	-3.3%	28,833.1	Y	12/2025	19.7	19.1	8.8%	-3.0%	18.7	19.2	4.6	25.5%	16.0	4.3%
OCK GROUP BHD	MP	0.415	0.390	-6.0%	436.3	Y	06/2025	2.6	3.0	-9.1%	12.6%	15.7	13.9	0.7	4.6%	1.0	2.4%
TELEKOM MALAYSIA BHD	OP	7.08	8.15	15.1%	27,171.2	Y	12/2025	47.3	47.4	-12.0%	0.3%	15.0	14.9	2.5	16.9%	32.5	4.6%
TIME DOTCOM BHD	OP	5.15	5.91	14.8%	9,521.4	Y	12/2025	26.1	28.7	10.6%	9.9%	19.7	17.9	2.5	12.2%	30.5	5.9%
SECTOR AGGREGATE					**135,317.0**					**-8.5%**	**3.9%**	**22.5**	**21.7**	**2.4**	**11.8%**		**4.1%**

Source: Bloomberg, Kenanga Research

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Utilities

Riding the Data Centre Wave

OVERWEIGHT
↔

By Teh Kian Yeong I tehky@kenanga.com.my

The utilities sector stands out as a key beneficiary of the data centre boom, offering long-term recurring income streams. TENAGA (OP; TP: RM17.20) remains our Top Pick, underpinned by sustained demand growth, transmission & distribution capex upcycle, and capacity expansion alongside IPPs such as MALAKOF (OP; TP: RM1.05) and YTLPOWR (OP; TP: RM4.66). With tight timelines to meet rising demand, tender outcomes from the Energy Commission's new power generation Request for Proposals (RFP) are expected by year-end. Expanding generation capacity will also drive higher gas consumption, creating opportunities for new regasification terminals. This should benefitgas utilities PETGAS (MP; TP: RM16.80) and GASMSIA (MP; TP: RM3.93). We continue to favour the sector for its earnings resilience, supported by regulated assets and steady cash flows, anchoring dividend yields of up to c.6%, particularly from GASMSIA. Maintain OVERWEIGHT.

Demand growth remains strong. After a seasonal dip in 1QFY25 (-1.0% QoQ), electricity sales in Peninsular Malaysia rebounded sharply in 2QFY25 (+7.0% QoQ), led by commercial demand (+7.6% QoQ) from data centres. Load utilisation rose to 603MW in Jun2025 from 485MW in Mar2025, with total energy use of 1,852GWh in 1HFY25. As of Jun2025, 24 data centre projects (with 3,500MW capacity) have been completed, including three data centre projects (with 740MW capacity) in 2QFY25. YTD, five new Electricity Supply Agreements (ESA) were signed, adding 480MW, with two projects (with 253MW) completed in Jul - Aug 2025. In total, 47 ESA have been signed, with cumulative capacity of 6,700MW. Demand from this segment is expected to grow further. **TENAGA** revised its FY25 demand growth guidance to 2.8%–3.8% (vs. 3.5%–4.5% previously, with same 134,560GWh target) to reflect the high FY24 base, against our 3.5% assumption. While demand growth is embedded in the IBR mechanism and subject to a revenue cap (with excess sales refunded via the revenue adjustment mechanism and vice versa), higher demand still supports better plant efficiency and higher transmission capex to meet high-voltage needs of data centres which are earnings positive for **TENAGA.**

New capacity bids and brownfield opportunities. To meet rising demand growth from data centre development, Malaysia is expected to add 6GW–8GW of new generation capacity by 2030. The Energy Commission has invited RFPs for: (i) new generation capacity, (ii) extensions of gas-fired PPAs, and (iii) additional capacity from expired PPAs from gas-fired plants. We see **TENAGA** and **MALAKOF** as strong contenders given their brownfield assets (**TENAGA**: 310MW Gelugor, 375MW Connaught Bridge, 1,411MW Tuanku Ja'afar, 275MW Pasir Gudang; **MALAKOF**: 350MW Prai, 1,222MW SEV, 440MW PD, 640MW GB3). Both also hold land banks suitable for greenfield projects, while **YTLPOWR** is reportedly partnering with a landowner for new bid. To meet the timeline of demand growth, tender outcomes are expected by year-end. We have factored a 1,400MW gas-fired power plant into our model for **MALAKOF,** assuming project IRR of 8% and capex of RM6.3b which addRM1.42b or RM0.28/share into **MALAKOF's** RNAV.

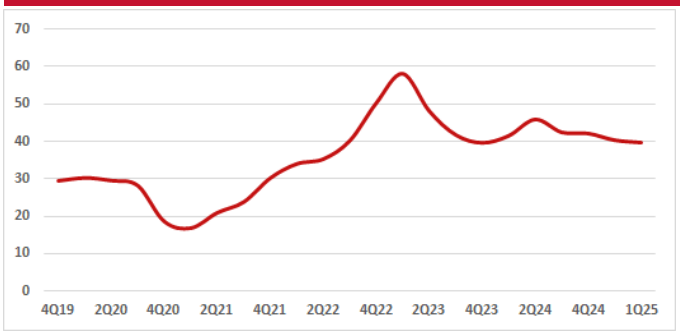
Gas demand to rise with electricity demand. With no new coal-fired plants, gas-fired capacity is the priority to support rising demand. In fact, natural gas usage in Peninsular Malaysia is already driven largely by the power sector, with **TENAGA** reporting a 36.4% mix in FY24 (vs. 36.6% in FY23). Gas-fired generation is expected to climb toward 50% by 2030, supported by: (i) data centre-driven electricity demand, (ii) phase-out of coal plants, and (iii) 6GW–8GW new gas capacity by 2030. In mid-Jun, Petronas confirmed plans for a third regasification terminal (RGT), with **PETGAS** likely as operator given its ownership of the first two terminals (Sungai Udang, Melaka; Pengerang, Johor). Lumut is a strong candidate for the new RGT, given its proximity to MALAKOF's gas plants and TNB Janamanjung (4,100MW coal plant), of which three 700MW units are retiring by 2030 and the remaining 1,000MW by 2040, which are prime candidates for gas conversion. We also understand that **GASMSIA** is keen to participate in building new RGT facilities to support future earnings growth. We have yet to factor in any new RGT assumptions into our model. Based on a 3.5MTPA capacity with an estimated investment cost of USD700m, and assuming PETGAS takes a 70% stake, the project could add RM2.37/share, raising its RNAV to RM19.17.

Maintain OVERWEIGHT on the utilities sector. YTD, the KL Utilities Index (KLUTL) is down 2%, broadly mirroring the FBMKLCI's decline of 3%, dragged by **TENAGA**whichfell 10% on concerns over its tax dispute with IRB. However, the court's ruling that Investment Allowance (Schedule 7B) is a valid claim, and its permission for **TENAGA** to resubmit the application, significantly improves prospects of an amicable resolution. We believe the sell-down has priced in the dispute, with **TENAGA** now trading at CY26F PER of 15.3x vs. its 5-year mean of 14.4x. Meanwhile, other utilities have outperformed, riding the data centre boom. **MALAKOF** (+15% YTD) trades at CY26F PER of 22.8x vs. 13.7x 5-year mean, and **YTLPOWR** (+13%) at 13.5x vs. 10.9x mean. **PETGAS** (+5%) trades at 19.0x vs. 18.2x mean, with**GASMSIA** (+1%) at 13.4x vs. 12.8x mean. In all, the data centre boom makes utilities prime beneficiaries, providing long-term recurring income streams. **TENAGA** remains our Top Pick, with exposure to demand growth, transmission & distribution (T&D) capex up-cycle, and new capacity build-outs, alongside IPPs like **MALAKOF** and **YTLPOWR.** Rising gas demand also benefits **PETGAS** and **GASMSIA**. As such, we continue to favour the utilities sector for its earnings resilience, supported by regulated assets and stable cash flows, anchoring attractive yields of up to c.6%, particularly from GASMSIA.

Indonesia Coal Benchmark Price (USD)

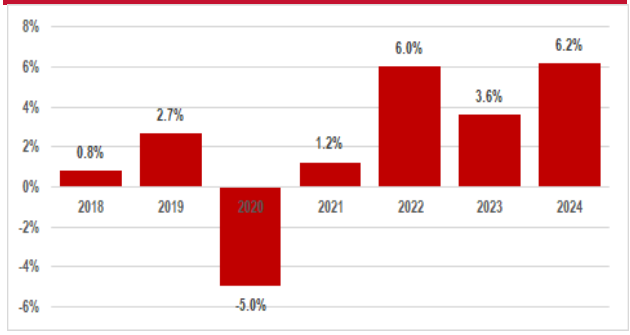
Source: Bloomberg

Natural Gas Price Movement



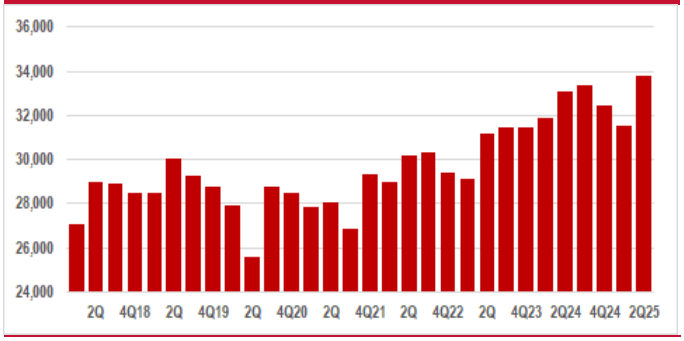
Source: GASMSIA

TENAGA: Annual Electricity Demand Growth



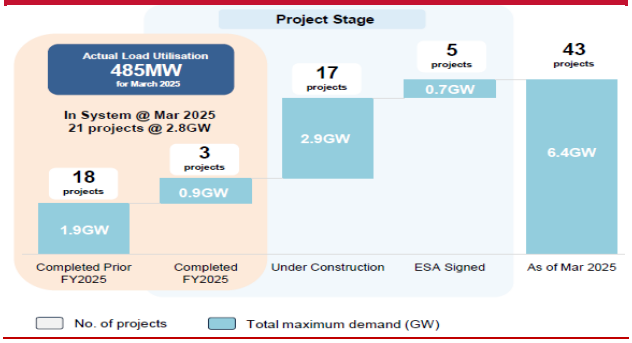
Source: Tenaga

TENAGA: Monthly Electricity Sales (GWh)



Source: Tenaga

Data Centre Updates



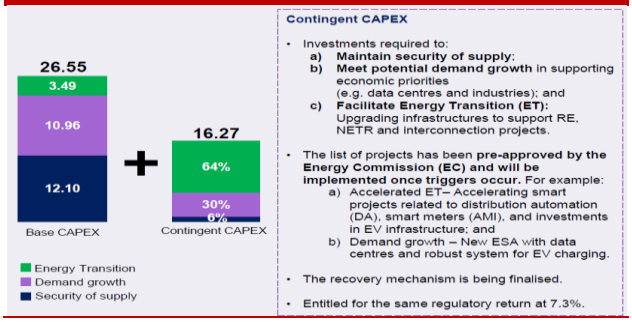
Source: Tenaga

Tariff Parameters

	Regulatory Period 3 (RP3)	>	Regulatory Period 4 (RP4)
Average Sales (TWh)	116.8		141.7
Coal price (USD/MT)	79		97
FOREX (RM/USD)	4.123		4.400
Gas price (RM/mmBTU)	T1: RM26 - RM30 (800mmscfd) T2: RM33		T1: RM24 - RM35 (800mmscfd) T2: RM46
OPEX (RM bil)	17.9		20.8
BASE CAPEX (RM bil)	20.6		26.6 *(with RM16.3 bil Contingent CAPEX)*
WACC	7.3%		7.3%

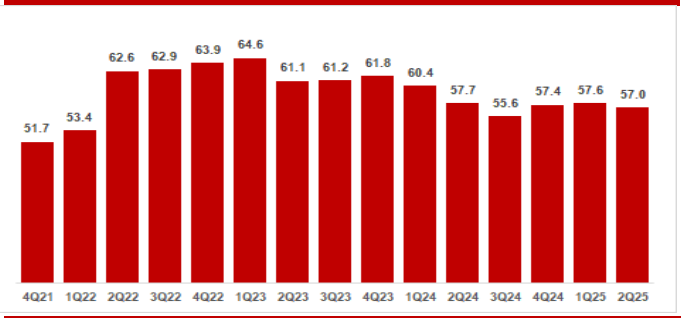
Source: Tenaga

RP4 Allowed Capex (RM b)


26.55
3.49
10.96
12.10
Base CAPEX
16.27
64%
30%
6%
Contingent CAPEX
Energy Transition
Demand growth
Security of supply
Contingent CAPEX
Investments required to:
a) Maintain security of supply;
b) Meet potential demand growth in supporting economic priorities (e.g. data centres and industries); and
c) Facilitate Energy Transition (ET): Upgrading infrastructures to support RE, NETR and interconnection projects.
The list of projects has been pre-approved by the Energy Commission (EC) and will be implemented once triggers occur. For example:
a) Accelerated ET– Accelerating smart projects related to distribution automation (DA), smart meters (AMI), and investments in EV infrastructure; and
b) Demand growth – New ESA with data centres and robust system for EV charging.
The recovery mechanism is being finalised.
Entitled for the same regulatory return at 7.3%.

Source: Tenaga

TENAGA: Borrowings (RM b)



Source: Tenaga

Peer Table Comparison

Name	Rating	Last Price @ 19/9/25 (RM)	Target Price (RM)	Upside	Market Cap (RM m)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE	Net. Div. (sen)	Net Div Yld
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
GAS MALAYSIA BHD	MP	4.32	3.93	-9.0%	5,546.9	Y	12/2025	31.1	32.1	-9.7%	3.5%	13.9	13.4	3.5	25.8%	24.9	5.8%
KJTS GROUP BHD	OP	1.65	2.12	28.5%	1,136.6	Y	12/2025	2.3	4.0	20.8%	71.1%	70.3	41.1	12.0	16.4%	0.5	0.3%
MALAKOFF CORP BHD	OP	0.975	1.05	7.7%	4,764.8	Y	12/2025	4.5	4.3	-2.2%	-3.9%	21.8	22.7	1.1	4.9%	3.6	3.7%
PEKAT GROUP BHD	MP	1.77	1.68	-5.1%	1,143.6	Y	12/2025	7.2	8.5	109.0%	17.5%	24.6	20.9	4.4	24.0%	0.0	0.0%
PETRONAS GAS BHD	MP	18.50	16.80	-9.2%	36,606.5	Y	12/2025	93.8	97.5	-0.1%	3.9%	19.7	19.0	2.5	13.1%	72.0	3.9%
SAMAIDEN GROUP BHD	OP	1.21	2.08	71.9%	561.8	Y	06/2026	6.9	8.4	24.0%	21.6%	17.4	14.3	4.8	29.8%	0.0	0.0%
SOLARVEST HOLDINGS BHD	OP	2.72	3.25	19.5%	2,233.6	Y	03/2026	10.1	13.7	48.7%	36.1%	27.0	19.8	5.3	22.2%	0.0	0.0%
SWIFT ENERGY TECHNOLOGY BHD	OP	0.245	0.470	91.8%	245.2	Y	09/2025	1.3	2.0	-29.3%	53.8%	18.9	12.3	3.1	19.1%	0.0	0.0%
TENAGA NASIONAL BHD	OP	13.38	17.10	27.8%	77,993.9	Y	12/2025	82.9	88.8	-2.0%	7.1%	16.1	15.1	1.2	7.7%	41.0	3.1%
YTL POWER INTERNATIONAL BHD	OP	4.17	4.66	11.8%	35,742.2	N	06/2026	32.8	31.8	-7.1%	-3.2%	12.7	13.1	1.4	11.6%	8.0	1.9%
Sector Aggregate					**165,975.0**					**-2.9%**	**3.8%**	**16.4**	**15.8**	**3.9**	**17.5%**		**1.9%**

Source: Kenanga Research

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Stock Ratings are defined as follows:

Stock Recommendations

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

******Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.***

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